

ILLINOIS HISTORICAL SURVEY
LIB. 100.1

NOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 19

JANUARY, 1962

NUMBER 1

HIGHLIGHTS OF BUSINESS IN DECEMBER

The year ended on a high level of economic activity. Department stores enjoyed a burst of Christmas shopping that was well above the normal December expansion, and sales of new, domestically produced automobiles amounted to nearly 504,000, the first December since 1955 in which the half-million mark was exceeded. Production generally expanded during the month. Steel output was up contra-seasonally from November, automotive production was at a record December high, electric power output advanced sharply after allowance for seasonal factors, and petroleum production made a more-than-seasonal gain. The index of industrial production rose 1 point, bringing it to 115 percent of the 1957 average.

Wholesale prices advanced a little during December, and spot commodity prices were up nearly 2 percent. Defense expenditures and the federal cash deficit were at the highest levels reached in the past few years.

Unemployment Rate Unchanged

Although unemployment rose 100,000 from mid-November to 4.1 million in mid-December, the rate of unemployment remained at 6.1 percent of the labor force, since the increase was no more than normal for that period of the year. Employment in December was estimated at 66.5 million after a seasonal decline of 900,000, nearly all of it in farm jobs. Nonfarm employment amounted to 62 million, off 100,000, counter to the seasonal trend.

The absence of any significant increase in the estimates of the total civilian labor force during the past year has been a factor holding down unemployment figures. Over that period the labor force total expanded only 10,000 to 70.6 million, whereas normal growth in recent years has averaged nearly a million a year. Part of the lower growth in the past year was due to increased draft calls, but much of it stems from elderly persons and women leaving the labor force because of job scarcity.

Construction Declines

The value of new construction put in place during December was off 9 percent from the preceding month to \$4.7 billion. As a result of this more-than-normal decline, the seasonally adjusted annual rate for the month was down 2 percent.

A 16 percent decrease from November in public construction, much of it in military facilities and highways, accounted for the reduction in the seasonally adjusted

annual rate of total construction. Private construction declined 6 percent to \$3.4 billion, but this was less than the normal drop between November and December for this type, with the result that the adjusted annual rate rose 1 percent.

December construction activity brought the total for 1961 to a record \$57.5 billion, 3 percent above 1960 and 2 percent above the previous record year of 1959. Expenditures for private construction at \$40.4 billion were 2 percent above 1960, while public spending for new construction amounted to \$17.1 billion, 7 percent above the preceding year.

Sales to New High

Sales by manufacturing and trade firms advanced about \$1.3 billion in November to a new high of \$64.5 billion after seasonal adjustment. The total was more than \$4.1 billion above the year-earlier figure. A big boost in retail sales, particularly of automobiles, accounted for \$580 million of the monthly increase, but manufacturers enjoyed a gain of \$440 million, mostly in durables, and wholesale sales were up \$260 million.

Combined inventories of manufacturers, wholesalers, and retailers expanded for the fifth straight month, an addition of \$410 million bringing the seasonally adjusted total to \$95 billion. About \$330 million of the inventory advance was at retail establishments, much of it at auto dealers. Durable goods producers added most of the \$200 million in inventory expansion attributable to manufacturers, whereas wholesalers of nondurables cut back \$100 million.

Further Rise in Consumer Debt

Consumers increased their outstanding short- and intermediate-term debt \$468 million during November, after allowance for seasonal influences. This addition consisted of \$300 million in instalment debt and \$168 million in noninstalment obligations. It raised the total outstanding to \$55.5 billion.

Half of the increase in instalment debt was in automobile paper, reflecting the sharp rise in November automobile sales. Sizeable additions also occurred in other consumer goods paper and in personal loans. The expansion of noninstalment debt reflected additions of \$74 million to charge accounts, \$73 million to single-payment loans, and a smaller amount to service credit.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box 658, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

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Higher Prices for Cheaper Money

Interest rates appear to be rising. Early last month, the Federal Reserve Board and the Federal Deposit Insurance Corporation raised the interest ceiling on savings and time deposits in commercial banks from 3 percent to 4 percent per year. In part, this action was taken to protect the competitive position of commercial banks, which had been losing deposits for some time to other savings institutions—particularly to savings and loan associations, many of whom have been paying $4\frac{1}{2}$ percent on their deposits.

There is little doubt that this reason is a valid one. With a differential of $1\frac{1}{2}$ to 2 percentage points in savings and loan yields, banks are not likely to maintain, let alone increase, their share of the consumer savings dollar. Indianapolis provides an interesting case history. When savings and loan, and building and loan, associations in that city were paying 4 percent and banks 2 percent, prior to December, 1959, an increasing share of savings was moving to the savings and loan associations. However, when the banks received authority from the state to increase their rate on savings to 3 percent, their competitive position greatly improved.

Nevertheless, safeguarding the market position of the banks does not seem to have been the principal reason for the recent boost in interest rate ceilings. A much more likely reason is the concern of the federal government over the continuing outflow of gold, and the possibility of further outflows in the coming year. Interest rates exert a major influence on this movement, particularly when considerable disparities exist among different countries. Thus, while interest rates in this country have been in the neighborhood of 3 to 4 percent, interest rates overseas during the past year have been much higher, the discount rate being increased by the Bank of England to 7 percent for a while last summer. The effect of this differential has been to induce funds in this country to move overseas, thus promoting further gold outflows.

The action of the Federal Reserve may be just another step in a program to allow rising interest rates in this country to counteract this outflow of gold. Particularly significant in this connection has been the increase in the yield on treasury bills, which reached a high for 1961 just at the end of the year of about 2.9 percent.

Implications

The repercussions of this act by the Federal Reserve are likely to be far wider than one might originally suspect. An immediate effect is on the savings and loan associations, many of whom are desirous of maintaining, and even increasing, the rate of growth that they have experienced in the past. To this end, rates paid by these associations have been increased all over the country during the past month, some associations now offering as much as 5 percent on insured long-term deposits.

A more indirect, but perhaps even more significant, effect is to reduce even further the attractiveness of government savings bonds. At 3½ percent if held to maturity, government bonds were already at a disadvantage relative to the 4 percent and higher rates offered by savings and loan associations. Now they are also at a disadvantage compared with the rates offered by commercial banks on time deposits, holdings which are presumably as safe as government bonds and are much more liquid. Under the circumstances, government savings bonds at present yields are likely to be purchased either out of patriotism or out of ignorance. With banks beginning to advertise their higher rates, the number of such buyers is likely to drop precipitously.

As a result, the government will be under strong pressure to "sweeten" the rate on government savings bonds, and interest rates on these bonds may rise within a relatively short time. However, a higher rate on government savings bonds also has to be accompanied by higher rates on marketable government bonds, with the result that the entire structure of bond interest rates will be moving upward.

Commercial bank rates will undoubtedly rise as well. In addition to their linkage with bond yields, banks will be under pressure to increase the rates they charge for loans from at least two different sources. First, the higher rates paid on savings accounts mean higher expenses, in some cases substantially so. To cover this higher expense additional revenue will be needed, and this comes primarily from increased rates on loans. Second, the higher interest rates being paid by banks will make it more difficult to secure mortgage loans, with the result that the current FHA interest charge for home loans may have to be increased above the present ceiling of $5\frac{1}{4}$ percent.

More generally, this upward movement of the structure of interest rates may provide impetus for higher prices. Thus, higher bond yields make it more expensive for governments as well as private corporations to finance capital programs; higher rates on mortgages increase the cost of homes; higher government bond rates increase the cost of government; and so on. To be sure, such a consequence need not be inevitable, for higher interest rates could also depress economic activity and thereby bring about lower prices. However, at the outset of what may be a sharp cyclical upswing, such an eventuality is not likely.

In Perspective

From a longer-run point of view, the impending upward movement of interest rates appears to be part of a pattern. In the early part of the century interest rates moved up sharply, reaching a post-World War I peak in 1920 of almost $5\frac{3}{4}$ percent on long-term government (tax-exempt) bonds. After that date, interest rates declined in a rather erratic fashion over the years to barely 2 per-

(Continued on page 8)

OUR DAILY BREAD

Commercial baking began very early in this country. Small bake shops appeared soon after the first American settlements began to develop. From the mid-seventeenth century until about 60 years ago, the industry changed little, consisting chiefly of small, urban bakers, who often operated shops in their own homes. Because of the limited market that these bakers could serve and because of the high perishability of their product, the typical housewife, especially in rural areas, was forced to bake her own bread, a practice which usually took up nearly two days a week.

In the past 60 years, baking has come out of the kitchen and has evolved into a major industrial operation. Today, large bakeries look like modern manufacturing plants, with automatic conveyors; heavy machinery for mixing, weighing, and wrapping; and huge ovens baking up to 5,000 loaves of bread an hour.

A number of factors have contributed to this dynamic expansion of the American baking industry. Among these are the progress in transportation that has made possible fast, efficient mass distribution of bakery items, the gradual population shift into urban areas that has given bakers a larger, more accessible market, the great increase in agricultural products needed by these bakeries, and the improved baking techniques and machinery that have made possible large-scale production.

A \$6 Billion Industry

Baking is now one of America's giant industries. It ranks well up among the nation's top ten manufacturing industries and is the third largest in output among the more than 30 food-processing industries. In 1958, its shipments reached a record \$5.7 billion, nearly 300 percent greater than in 1939. Its employees today number 370,000, compared with 280,000 two decades ago.

The industry today is made up of more than 18,300 establishments scattered throughout the 48 continental states. Although some—particularly the "dry" bakery foods manufacturers—produce for national markets, the majority serve only their immediate areas. In general, the nation's bakeries are dispersed more or less in relation to the nation's population.

Nearly 12,000 establishments are small single-store retailers who bake and sell over the counters of their own stores; these neighborhood units contribute about 11 percent of the industry's total sales. The remaining 6,300, which usually transfer products to another place for sale, tend to be larger and more factory-like. Of these, there are three major types: plants that operate on a wholesale basis; retail multi-outlet bakeries, including grocery chains, which have a centralized plant for their stores; and home-service bakeries that sell chiefly through retail house-to-house routes.

The baking industry is one of the biggest industrial customers of American farmers, annually purchasing nearly \$2 billion worth of agricultural products. Wheat flour, a prime ingredient in bread production, accounts

for about one-third of the industry's total expenditures for raw materials. In all, the nation's bakeries require about 10 billion pounds of wheat flour a year for the production of bread, which is produced at a daily rate of 45 million loaves. Other important materials bought by the industry include sugar, shortening and lard, eggs, and dried milk.

Although the industry manufactures a wide array of products, especially in the cake, pie, and fancy cracker lines, plants tend to specialize in one of two broad areas: specialties ("dry" bakery products, such as biscuits, crackers, and pretzels) or foods for immediate consumption. The latter group of products, which includes bread, cakes, and pies, accounts for 82 percent of industry sales. In a typical year, bread accounts for nearly half of total sales and is followed by machine-made cookies, soft cakes, sweet yeast goods, pies, and biscuits, crackers, and pretzels.

Production in Illinois

Illinois is a leading producer of bakery goods. In 1958, according to the latest census, the 1,400 bakeries in this State turned out a product valued at an estimated \$470 million, a figure surpassed only by New York, California, and Pennsylvania. More than 1,000 of these establishments were single-outlet retailers which employed about one-fifth of the 28,000 Illinois bakery workers and shared an estimated one-eighth of the state's total sales.

The greater portion of Illinois production comes from wholesale bakeries. These, with 358 establishments in 1958, were responsible for nearly half of total output. Grocery chain bakeries, while ranking fourth nationally in product value, produced only 6 percent of the state total. Home-service bakeries, together with multi-outlet plants, added another 2 percent.

During the postwar period, Illinois has made exceptional progress in the production of "dry" foods, an area of manufactures in which the State has ranked first since before World War II. In 1958, the value of shipments by Illinois "dry" food bakeries stood at \$166 million, an increase of more than 200 percent since 1947 compared with the national advance of 78 percent. Largely responsible for this increase was the accelerated growth of a number of nationally known firms in the Chicago area, where all 16 of the state's biscuit-cracker bakeries are located.

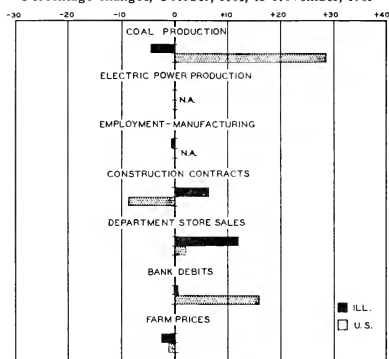
Bakery production occurs in many parts of the State. Some of the 1,000 single-outlet retail stores can be found in most counties, and the 374 "manufacturing" bakeries operate in 54 counties. The industry, however, is principally centered in Cook County, the nation's leading county in bakery output. Cook, alone, has more than half of the Illinois bakeries, including 38 of the 43 largest plants, and accounts for approximately two-thirds of annual production. Other counties containing plants with more than 100 employees are Peoria, Sangamon, Lake, DuPage, and Winnebago.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, October, 1961, to November, 1961



* Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Nov. 1961 (1947-49 = 100)	Percentage change from	
		Oct. 1961	Nov. 1960
Electric power ¹	250.1	-0.3	+ 2.7
Coal production ²	88.1	-4.4	+ 2.4
Employment—manufacturing ³	97.0	-0.2	+ 0.3
Weekly earnings—manufacturing ⁴	180.0 ^a	+0.3	+ 4.7
Dept. store sales in Chicago ⁵	129.0 ^b	-0.8	+ 8.4
Consumer prices in Chicago ⁶	130.9	-0.3	+ 0.3
Construction contracts ⁷	290.2	+6.5	-20.3
Bank debits ⁸	244.9	+0.2	+14.3
Farm prices received ⁹	79.0	-2.5	- 1.2
Life insurance sales (ordinary) ¹⁰	348.6	+4.7	+ 5.0
Petroleum production ¹⁰	121.2	-1.0	+ 3.9

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor;
⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agency, Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Data for October, 1961, compared with September, 1961, and October, 1960. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Nov. 1961	Percentage change from	
		Oct. 1961	Nov. 1960
Personal income ¹	429.0 ^a	+ 0.9	+ 5.7
Manufacturing ¹			
Sales	386.4 ^a	+ 1.3	+10.3
Inventories	55.0 ^{a, b}	+ 0.4	+ 1.9
New construction activity ¹			
Private residential	24.9	- 0.7	+12.9
Private nonresidential	18.7	- 2.9	+ 0.3
Total public	17.1	-12.4	+ 3.6
Foreign trade ¹			
Merchandise exports	22.4 ^c	+15.6	+ 7.9
Merchandise imports	16.1 ^c	+13.9	+15.8
Excess of exports	6.3 ^c	+20.1	- 8.0
Consumer credit outstanding ²			
Total credit	55.5 ^b	+ 1.0	+ 2.1
Installment credit	42.4 ^b	+ 0.6	+ 1.0
Business loans ³	36.4 ^b	0.0	- 0.8
Cash farm income ³	51.5 ^c	+29.2	+ 6.3
Indexes (1947-49 = 100)			
Industrial production ²			
Combined index	114 ^{a, d}	+ 0.9	+ 8.6
Durable manufactures	109 ^{a, d}	+ 1.9	+11.2
Nondurable manufactures	121 ^{a, d}	+ 0.8	+ 8.0
Minerals	100 ^{a, d}	+ 1.0	+ 2.0
Manufacturing employment ⁴			
Production workers	112 ^a	+ 1.4	+ 7.9
Factory worker earnings ⁴			
Average hours worked	102 ^a	+ 0.5	+ 3.3
Average hourly earnings	177 ^a	+ 0.9	+ 4.0
Average weekly earnings	181 ^a	+ 1.4	+ 7.4
Construction contracts ⁵	264	- 8.6	+ 4.2
Department store sales ⁶	153 ^a	+ 1.3	+ 6.3
Consumer price index ⁷	128	- 0.1	+ 0.7
Wholesale prices ¹			
All commodities	119	+ 0.1	- 0.7
Farm products	88	+ 0.5	- 2.7
Foods	108	- 0.4	- 1.1
Other	128	+ 0.2	- 0.3
Farm prices ³			
Received by farmers	88	- 1.1	- 1.1
Paid by farmers	120	0.0	+ 0.8
Parity ratio	79 ^f	- 1.2	- 2.5

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b End of month. ^c Data for October, 1961, compared with September, 1961, and October, 1960. ^d 1957 = 100. ^e Revised. ^f Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961					1960
	Dec. 23	Dec. 16	Dec. 9	Dec. 2	Nov. 25	Dec. 24
Production:						
Bituminous coal (daily avg.)	1,435	1,423	1,404	1,478	1,492	1,301
Electric power by utilities	16,630	16,695	16,084	15,954	15,330	15,535
Motor vehicles (Wards)	175	194	189	191	146	134
Petroleum (daily avg.)	7,300	7,355	7,397	7,198	7,210	7,139
Steel	129	128	125	120	118	77
Freight carloadings	520	533	561	574	495	468
Department store sales	358	333	299	238	185	319
Commodity prices, wholesale:						
All commodities	119.2	119.1	118.8	118.8	118.8	119.5 ^a
Other than farm products and foods	127.7	127.7	127.5	127.5	127.5	127.9 ^a
22 commodities	84.9	84.6	84.3	83.5	82.7	81.5
Finance:						
Business loans	32,733	32,232	32,025	32,118	32,044	32,358
Failures, industrial and commercial	285	306	295	356	238	253

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for December, 1960.

RECENT ECONOMIC CHANGES

Industrial Production Up

Following a rise in October the Federal Reserve's seasonally adjusted index of industrial production rose to 114 (1957 = 100) in November, 1961, thereby surpassing the peak just reached in August. Almost all of the major industrial groups showed increases. The biggest gain was registered by transportation equipment, which rose from 92 in October to 108 in November.

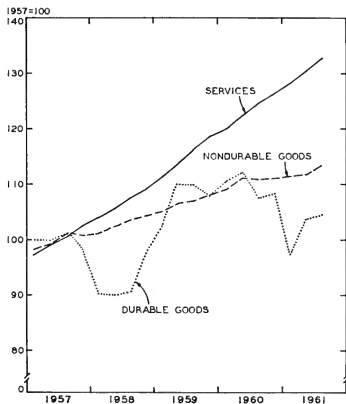
Industrial production showed an over-all increase of 12 percent during the nine-month period from the recession low of February through November. This rate of improvement is about the same as during the comparable period of the 1954-55 recovery, but is slower than in the upturns of 1949-50 and 1958-59. In November, industrial production was 4 percent ahead of its level at the previous business cycle peak in May of 1960.

Consumption Rises Slowly

In recent years, total consumption has increased about in line with income, but the proportion of income used for services has been rising and that used to buy goods has been declining, as indicated in the accompanying chart. After adjustment for price changes the difference is less pronounced, as prices of services have continued to rise, whereas prices of goods have increased little since 1958.

Fluctuations in the demand for durable goods account for most of the cyclical fluctuation in total consumption expenditures. In the recent recession, consumer outlays for such goods declined about as much as they did in the more severe 1957-58 recession. After the first quarter of this year, outlays by consumers for nondurable goods resumed the moderate upward trend that has prevailed throughout most of the postwar period.

CONSUMER EXPENDITURES



Source: U.S. Department of Commerce.

The biggest continuous increase in consumer spending has been for services. Since 1954 consumers have boosted their expenditures for services by an average of 7.3 percent per year; during the same period, expenditures for goods have risen 4 percent per year while total consumption expenditures and disposable personal income have risen by about 5 percent per year. Throughout the postwar period, expenditures for services have risen steadily, even increasing during recessions when personal income leveled off.

Individual Savings Increase

Net financial saving by individuals in the United States reached \$6.3 billion in the third quarter of 1961, \$3.1 billion more than in the second quarter, reports the Securities and Exchange Commission. Individuals' financial assets continued to mount mainly in the form of bank deposits, savings and loan association shares, and government securities. There was also an increase of \$900 million in net purchases of investment company shares, but investments by individuals in other corporate securities declined \$1 billion.

Individuals' investments in United States government marketable issues amounted to \$900 million in the third quarter, in contrast to net liquidations of such issues since early 1960, partly reflecting the higher return available. Net acquisitions of United States savings bonds amounted to \$200 million, about the same as in the preceding quarter, and state and local government bond holdings rose by \$300 million.

Currency and bank deposits of individuals rose \$3.8 billion during the third quarter, the largest increase since the third quarter of 1958. Time deposits increased \$2.1 billion, raising the total to only slightly below that of earlier quarters of the year. Demand deposits increased \$1.5 billion as compared with a \$1.4 billion decline in the preceding quarter, and currency holdings rose \$200 million. Saving in credit union and savings and loan association shares amounted to \$1.4 billion, bringing the increase for the first three quarters of 1961 to a record \$6.1 billion compared with a \$5.4 billion increase in the same period in 1960.

Sales and Inventories to Expand

Manufacturers' projected sales for the first quarter of 1962 are expected to be about 1.5 percent higher than the \$96 billion of sales recorded in the last quarter of 1961. Inventory expansion is expected to total \$1 billion, the largest quarterly increase since the recession of 1960-61 reached its low. The durable goods industries account for two-thirds of the anticipated increases for the last and current quarters.

Durable goods producers, who showed a 3 percent rise in shipments from the third to the fourth quarter, look for another 2 percent rise in sales this quarter. However, sales by soft goods producers are expected to rise only 1 percent this quarter, the same as the last quarter. The best relative sales gains are projected by chemical, oil, and rubber producers.

Employment Increases

Since February of 1961, the low of the past recession, nonfarm wage and salary employment has risen by more

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REVENUE PROBLEMS IN THE STATE OF ILLINOIS

A. JAMES HEINS, Assistant Professor of Finance

During the past year, the Illinois state government barely averted a Michigan-style financial "crisis," facing the possibility for a while of not having additional revenue to meet mounting expenditures. Although both states had political difficulties arising from a legislative and executive split, Illinois was more fortunate than Michigan which faced a constitutional limitation on its sales tax rate as well. As a result, no long-run changes were made in the state tax structure, but Illinois did relieve the problem of inadequate revenues on three fronts: (1) by enacting a service occupation tax and a hotel tax, (2) by new court rulings on the present sales and use taxes and by legislation which has broadened the base of those taxes, and (3) by raising the sales tax rate from 3 to 3.5 percent and the cigarette tax a penny a package. Revenues resulting from these tax changes will add about \$225 million to the general fund during 1962.

Recent Changes in the Sales Tax

Aside from the increased revenue, the changes in the tax structure corrected some long-standing inequities in the Illinois sales and use taxes. Until recently, service occupations escaped sales and use taxes on materials passing through their hands incidental to their service. For instance, custom clothiers were not taxed on their sales of clothes or their purchases of materials going into the clothes. A similar exemption applied to photographers, barbers, repairmen, and a host of other occupations. The construction industry and sellers of machine tools were particularly significant among the group exempt from the sales and use taxes because of the large revenues lost by reason of their exclusion from the tax base. If they pass the test in the courts, the broadening bills and the service occupation tax, along with new court rulings relating to the construction industry, will correct most of these inequities.

Although the revenues resulting from the recent tax changes will likely suffice to solve current revenue problems, present taxes are not likely to provide sufficient revenues to meet expenditure needs several years hence. Governor Kerner recently asserted that the newly acquired revenues will probably enable the State to "hold on" during the current biennium, but little more. This is perhaps a little pessimistic, but it does point up the probability that current revenues will soon be inadequate to meet mounting expenditures.

Before looking at future problems, let us take a brief look at the current burden of Illinois taxpayers as compared with taxpayers in other states. In 1957, Illinois state and local governments spent \$2.2 billion, which amounted to 9.2 percent of the personal income of its residents. This compares with the 11.7 percent of personal income that state and local governments in all 48 states expended that year, and with the 15.8 expended in Mississippi, 15.5 in Kansas, 12.8 in California, 12.5 in Wisconsin, and the 11.6 percent expended in New York. In this regard, Illinois ranked 46th of the 48 states in 1957.

One might conclude from these facts that Illinois is doing less than it could in the way of providing public services; it devotes less of its income to public purposes than virtually all other states. On the other hand, one might just as easily conclude that Illinois is doing a good job to get the public services it does with such a low

expenditure; or that Illinois citizens have somehow resisted the "creeping statism" evident in public expenditures in other states. The resolution of these questions necessarily depends upon one's value judgments about the proper role of government in our society.

Estimates of Future Expenditures

The National Planning Association (*Long-Range Projections for Economic Growth*, October, 1959) predicts state and local spending of \$86 billion in 1970, \$4.4 billion of which would probably be expended by Illinois state and local governments if Illinois maintains its relative position among the states in the providing of public services. These figures depend upon many assumptions, principally (1) better standards for present services and some new services, (2) a rising population, and (3) a productivity lag in the public sector of the economy.

Taking the \$4.4 billion as a point of reference and breaking it down into state and local components on the basis of what happened in 1957, which may or may not be reasonable (there may be a relative shift in favor of more spending at the state level), the state government will spend an estimated \$2.3 billion in 1970. This means that, neglecting borrowing, the state government will have to produce about \$2.3 billion in revenues in 1970 compared with the \$1.25 billion raised in 1960 and a tentative \$1.5 billion in 1962. Assuming a rate of growth of 3 percent a year in productivity of current revenue sources (others have predicted a larger growth), the present revenue structure will yield about \$1.9 billion in 1970. If a 4 percent growth rate is assumed, which seems slightly high, the present structure would yield an estimated \$2.08 billion in 1970. These estimates assume a rate of growth in federal grants to Illinois comparable with other revenue sources.

The upshot of these predictions is that the Illinois state government will have to produce revenues of \$220 million to \$400 million (depending upon assumed growth rates) over and above the revenues that can be produced by current taxes. Perhaps the federal government will provide new grants for education, welfare, and the like. However, the most likely sources of this added revenue are increased sales tax rates, selective and general; adoption of an income tax on individuals and corporations; or stopgap measures, such as license fees and franchise taxes.

The Future Tax Burden in Illinois

Before looking at the various possibilities, it would be worth while to examine the problem in general terms. How hard will it be for Illinois to produce this added revenue? If we assume a 3 percent rate of economic growth, which is very conservative, personal income of Illinois residents will be about \$35.6 billion in 1970. The estimated state and local expenditures of \$4.4 billion in 1970 would amount to 12.3 percent of estimated personal income. This compares with the 9.2 percent burden of Illinois and the 11.7 percent burden of all states in 1957. This means that if expenditures grow to \$4.4 billion in Illinois by 1970, and if personal income grows to \$35.6 billion in 1970, the burden of state and local expenditures in Illinois, as a percentage of personal income, will be only slightly higher than the burden in the typical state

in 1957 and lower than that in many states — California, Washington, Wisconsin, and Iowa, for example — in 1957. A reasonable conclusion is that, if many states could do it in 1957, Illinois should find the problem relatively simple, from an economic standpoint. If one were to allow for a rate of growth in personal income greater than 3 percent, or a smaller increase in spending, the problem would be smaller still.

Of course, the State could decide to upgrade the services provided by state and local governments in Illinois to the level of the typical or the more liberal states. This would require more revenues than the \$4.4 billion, perhaps \$5.2 billion to \$5.6 billion by 1970, and the problem of providing the revenue would become economically and politically more difficult.

Possible Sources of Added Revenue

Where will this added revenue come from? Governor Kerner, supported by many politicians and economists, has proposed the adoption of a graduated income tax on individuals and a corporate income tax. The income tax is of known dependability in the production of revenue, has desirable — properly defined — distributional effects, and is relatively easy and economical to administer. Twenty states, including California, Colorado, and Iowa, have an income tax on individuals and corporations as well as a sales tax.

Illinois adopted a graduated income tax in 1932, but that tax was ruled unconstitutional by the Illinois Supreme Court on the grounds that income is property, and the uniformity provision in the state constitution limits taxes on property to an ad valorem basis. So it seems that a constitutional amendment would be required in Illinois if a progressive income tax were to be adopted. Twice in the last 10 years, constitutional amendments which would have liberalized the revenue powers of the state government, but would have prohibited a graduated income tax, were voted down. Whether the graduated income tax is politically feasible in the next decade is problematical; however, it may turn out to be necessary, and necessary things have a way of getting into law. Perhaps, in view of the dominance of the steeply progressive federal income tax, a simpler expedient would be the adoption of a proportional income tax with a large exemption; this tax may not require constitutional amendment.

What about an increase in the general sales tax rate? With the change in the state rate to 3.5 percent this last summer and with the 0.5 percent on local option added, Illinois has a sales tax rate equal to the highest in the country. Only four other states have sales tax rates as high as 4 percent — California (3 percent plus 1 percent on local option), Washington, Pennsylvania, and Michigan. Probably the limiting factor is the status of sales taxes in adjoining states; if they raise rates, Illinois will find it easier to do so. How high the sales tax rate could go is difficult to say.

The desirability of raising sales taxes is still another question. From a distributional standpoint, most people would say its regressive elements make it inequitable, and therefore other avenues, the income tax in particular, ought to be explored. With respect to the equity of tax distribution, however, one must consider not only the tax in question, but also its place in the total tax structure. The fact that state taxes are deductible from the federal income tax tends to reduce the apparent progressivity of a graduated state income tax. While distributional as-

pects are important, the fact that the federal taxes play such a large role in this regard tends to make other aspects of state taxation relatively more important. As to administration and productivity aspects, the retail sales tax compares favorably with other taxes.

Substantial revenues can be raised from selective sales taxes on tobacco, alcohol, and motor fuels in particular. These taxes have shown persistent rises in the past, and it is likely they will continue to rise in the future. The equity of such taxation is difficult to assess, because equity depends upon economic impact, which is not easy to determine, and upon numerous value judgments. Nevertheless, to the extent that selective taxes are placed on luxuries — whatever they are — and to the extent that they measure benefits received, as in the case of motor fuel, most would hold that selective sales taxes have a place in state tax structures. Although selective sales taxes have been important revenue producers in the past and will continue to produce in the future, it is quite clear that the required increases in revenue will have to come largely from other sources. As with selective sales taxes, other stopgap sources such as motor vehicle license fees and other licenses and charges do not seem promising enough to fill the long-run needs of the State in and by themselves.

The Need for Tax Revision

In looking for ways to produce the added revenue which appears to be necessary in the next 10 years, we must not overlook the question of the desirability of the present tax structure in Illinois. Merely because current revenues are sufficient to meet current expenditures, one cannot conclude all is well on the tax front. It may well be that the same revenues could be produced by a tax structure that is somehow more desirable on equity grounds, more conducive to economic growth in the private sector of the economy, and easier to administer. This is a crucial question, one which state governments in various states, including Illinois, have attempted to answer by appropriating funds for research in this area.

Because of our heavy reliance on sales taxes at the state level and on property taxes at the local level, the Illinois tax structure is probably more regressive than that in most states, particularly states which embrace a graduated tax on individual income and a corporate income tax. Some of this differential, but certainly not all, is offset by the steeply progressive federal income tax. Recent studies have indicated that the sales tax impact is nearly proportional over the middle ranges of the family income spectrum — from perhaps \$2,000 to \$10,000 a year; its regressiveness becomes apparent on incomes over \$10,000 and under \$20,000. A state income tax, even without graduation, but with a substantial exemption, say \$5,000, would remove much of the regressivity of the Illinois tax structure. California has used a similar combination of sales and income taxes with satisfactory results.

Opponents of income taxation in Illinois argue that a graduated income tax on individuals and a corporate income tax would reduce incentives for industrial growth and, possibly, drive some industry from this State to tax havens in other states. This is certainly an important question; adoption of a tax structure known to discourage economic growth or a tax structure which would encourage industrial relocation in other states would be ill-advised. Unfortunately, very little is known about the effects of taxes, if any, in this regard. So far as Illinois

is concerned, this factor is probably of minor importance because, as the figures on tax burdens in relation to income indicate, Illinois is already a tax haven in which refugees from other states should congregate.

It might also be argued that reliance on two major taxes, such as the sales tax and the income tax, would be less efficient administratively than the use of one or the other of the taxes. This line of reasoning is based upon the notion that large increments in revenue could be attained through a hike in either the sales tax or income tax rate without corresponding increases in administrative costs, whereas adoption of a second form of taxation would require a new administrative setup with all the costs involved. This argument is persuasive, especially at the margin; but even if it were true, it is not necessarily the controlling factor. The same amount of revenue received by the State of Illinois from its myriad forms of taxation could have been derived from the sales tax—with sufficiently high rates—at significantly lower administrative costs. However, this would not justify the abolition of all minor forms of taxation and complete reliance on the sales tax, because these taxes have other roles—control, licensing, equity—over and above their revenue-producing power.

Recommendations must be based on all factors involved—equity, economic climate, taxes in other states, administrative efficiency, revenue productivity, and others—bearing in mind that state taxes are intertwined with the federal and local tax structures. The State of Illinois would do well to consider the adoption of a proportional income tax on individuals, with a large exemption, and on corporations, as a supplement to the sales tax. Such a change could be adopted now, with a modification of the sales tax rate, or later when the need for revenue requires new taxes or higher tax rates. Proportionality would have the advantage of being at least possible under current constitutional provisions on taxes.

As for the sales tax, some improvement in administration could be accomplished with increased appropriations to the Department of Revenue for a larger and better-qualified staff. The increased funds would provide for a better audit and enforcement system with a resulting increase in revenues and more equitable administration. With regard to inequities in the Illinois sales and use tax base, the recent revisions by the legislature and new court rulings did much to improve those taxes on that score.

Higher Prices for Cheaper Money

(Continued from page 2)

cent in 1941. During World War II and the 1940's, interest rates remained fairly stable. Since then, however, interest rates on long-term bonds have risen from a low of about 2½ percent in early 1950 to a temporary peak of almost 4½ percent in early 1960. It is perhaps needless to note that these increases have not taken place without fluctuations, the current level of approximately 4 percent representing probably an interim stage in a new short-term upswing that began last spring.

The continuing rise in interest rates during the past decade is attributable primarily to the tremendous investment boom of the American economy. All indications are that we are in the midst of a new industrial revolution which will require many tens of billions of additional dollars until it has run its course. The supply of available funds is barely sufficient to keep up with this huge de-

mand. As a result, any imbalances are likely to be on the side of inadequate funds, which can only mean higher interest rates.

To some extent also, the rising interest rates may represent a discounting of the continuing increase in the price level. The more the price level rises, the larger is the interest rate needed to maintain the purchasing power of one's savings. Given the present institutional framework which makes prices rigid on the downward side, a continuing need for such adjustments is likely to exist. Whether interest rates in the foreseeable future will rise to the 1920 peak of over 5½ percent on (tax-exempt) governments is doubtful, but there is little doubt that as the dollar goes lower pressure will increase for interest rates to move higher.

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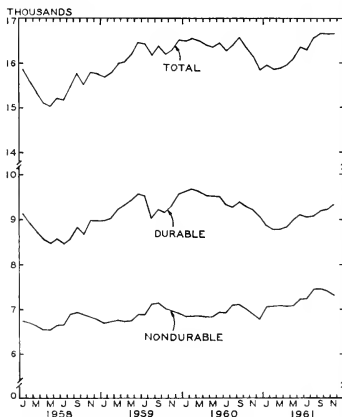
Recent Economic Changes

(Continued from page 5)

than 2 percent to 55.7 million. During this period employment in durable goods manufacturing increased over 300,000 to 9.1 million, as indicated in the chart. The durable goods manufacturing sector which accounts for 17 percent of wage and salary employment, contributed over 30 percent of the gain in employment.

Following each previous postwar recession there has been a greater-than-proportional change in durable goods manufacturing. As indicated in the chart, from the high in mid-1960 to the low of February, 1961, durable goods manufacturing accounted for about 70 percent of the total change in wage and salary employment. Increases in employment, aside from cyclical upswings, have been centered in government, trade, and service in recent years. The most favorably situated labor markets today are those areas in which these types of employment are particularly important.

MANUFACTURING EMPLOYMENT



Source: U.S. Department of Commerce.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Long-Term Advance in Interest Rates

During the last decade, interest rates in the United States have risen appreciably from the low levels that prevailed in the 1930's and 1940's and have undergone large swings during successive business fluctuations. The increase in yields has reflected the gradual working down of wartime accumulated liquidity and a continued heavy demand for credit in all sectors of the expanding postwar economy. Large amounts of credit were used to finance additions to corporate working capital and fixed plant, residential and commercial construction programs, expansion of governmental facilities and services, and the rapid growth of consumer debt.

Cyclical swings in domestic interest rates have reflected changes in the demand and supply of credit as well as changes in investor expectations. During each business recession, as shown in the chart, private demand for credit has declined and the Federal Reserve System has acted to increase the supply of bank reserves. This, along with continued large or even rising flows of savings, has increased the supply of loanable funds and has contributed to a substantial easing in the credit markets. As employment and output rose in recovery periods, the demand for credit generally grew rapidly, with the result that credit conditions tightened and interest rates rose. These fluctuations have produced markedly different patterns of rates on securities, as illustrated in the chart.

Developments in the credit markets during 1960-61 have differed significantly from earlier recession-recovery periods. The downward adjustment in interest rates in 1960 in response to the slower pace of economic activity was not as pronounced relative to its previous peak as in 1953-54 and 1957-58. Also, interest rates did not rise appreciably in the second quarter of 1961 despite the economy's rapid recovery from the recession and sharply increased long-term borrowing by business firms and state

and municipal agencies. Through the end of September, 1961, yields on short-term securities continued to fluctuate around the lows reached more than a year earlier, and yields on long-term securities registered only modest increases from the recession lows reached in the late winter of 1960-61.

State Capitals Show Population Gains

Forty-one of the nation's 50 state capitals increased in population during the previous decade, reports of the 1960 Census of Population reveal. Fastest growing of the capitals were Phoenix and Annapolis. Phoenix started the decade with 106,818 residents and ended with 439,170 for a 311 percent increase. Annapolis more than doubled its population, from 10,047 in 1950 to 23,385 in 1960.

The largest city among the capitals is Boston, Massachusetts, with 697,197 residents, and Carson City, Nevada, is the smallest, with 5,163 people. The capital showing the largest decrease in population was Providence, Rhode Island, down 16.6 percent to 207,498 residents. In Illinois the state capital, Springfield, increased only 2 percent over the 1950 total, reaching 83,271 residents.

Linguist Pool to Help Business Visitors

A foreign language pool of Commerce Department employees expert in one or more of 27 languages has been organized to assist foreign businessmen and travelers in the United States. The Business Service Center, which is in charge of this new program, not only has available employees who speak French, Spanish, and Italian, but also some who speak such tongues as Persian, Finnish, Arabic, Ukrainian, Serbo-Croatian, and Latvian. This new service is expected to speed up the businessman's contacts, both foreign and domestic, with the government.

Foreign Aid Increases

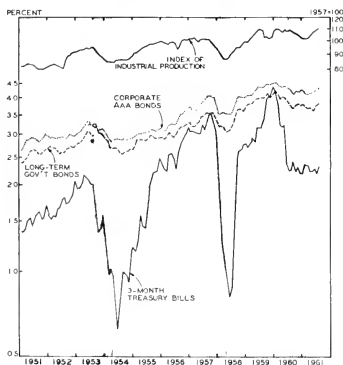
Transfers abroad under the mutual security, food-for-peace, Export-Import Bank, and other military and economic assistance programs of the government in fiscal 1961 rose 4 percent from the previous year to \$5.2 billion. This amount includes transfers of goods and services and cash payments, but does not include payments of \$74 million to the International Development Association.

Every major program which provides some form of assistance to foreign economies contributed to the increase in the new "nonmilitary" assistance transfers in the 12 months ended June 30, 1961. Deliveries against sales for foreign currencies rose for the third consecutive year to \$656 million. Almost \$350 million of assistance was also extended under authorizations providing for direct grants abroad of our farm products.

Population Reaches 185 Million

The population of the United States, including armed forces overseas, reached an estimated 185 million on December 1, 1961, an increase of 5 million over the count of the decennial census taken in 1960. In approximately fifty years the population has doubled, going from 93.5 million in 1910 to 185 million in 1961. It is now increasing at a rate of 3 million a year. Five years hence, at the same rate, the population will reach 200 million.

INTEREST RATES



Source: Federal Reserve Bank of Chicago, *Business Conditions*, September, 1961, p. 12.

LOCAL ILLINOIS DEVELOPMENTS

Tollway Revenue Up

The net revenue from Illinois tollways for November, 1961, was \$1.4 million compared with slightly less than \$1.3 million for November, 1960, an increase of about 10 percent, according to the Illinois State Toll Highway Commission. Total net revenue for 1961 is estimated at \$18.6 million, a 22 percent increase over the 1960 figure of \$15.2 million.

The gross revenue estimate for 1961 is \$24.6 million, an 18 percent increase over the 1960 total of \$20.9 million. Since its opening in 1959, the state's 187-mile tollway system has shown an increase of 81.5 percent in revenue. Total revenue for the tollways in 1962 has been estimated at \$27.3 million.

Record Crop Yields

Yields of all major Illinois crops reached record or near-record levels in 1961 as a result of favorable growing conditions and a long maturing period. According to the Illinois Cooperative Crop Reporting Service, the state's 1961 crops are tentatively valued at more than \$1.3 billion, 9 percent more than 1960 crops.

A record corn yield of 77 bushels per acre was achieved in 1961. This exceeded the previous high (in 1958) by 8 bushels. The outstanding 1961 corn crop was grown on 8.3 million acres, 17 percent fewer than the year before and 4 percent under the 1950-59 average. The 1961 soybean crop of 159 million bushels represented another Illinois record, 17 million bushels more than the previous high produced in 1958. At the same time, the yield of 28.5 bushels an acre equaled the high of 1956.

Wheat production was up sharply, amounting to 61 million bushels, 15.6 million bushels more than the 1959 crop. The 1961 crop was harvested from 1.7 million acres, 8 percent more acreage than was harvested in 1960.

The average acre yield of 36 bushels was 34 percent above 1960 and 45 percent above the 10-year average.

The 1961 oat yield of 56 bushels per acre was 8 percent more than the year before and equaled the previous high of 1955. The crop totaled 90 million bushels, 5.3 million bushels less than the 1960 crop; but the 1961 crop was harvested from 1.6 million acres, 14 percent fewer than in 1960 and the smallest acreage since 1874. Hay production amounted to 4.2 million tons, 10 percent less than in 1960. The 1961 crop was produced on 2.0 million acres, 6 percent fewer than in 1960. The yield was slightly less than the record yield of 2.16 tons per acre the previous year.

Illinois produced 62 percent more soybeans than any other state and tied with Iowa for highest yield per acre. The State ranked first in corn yield per acre except for two western states which grew small acreages under irrigation. In wheat grown without irrigation Illinois tied with Michigan for top yield per acre and tied with Wisconsin for highest yield of oats per acre.

Larger School Enrollment

The number of public school pupils enrolled in Illinois for the 1961-62 school year rose to 1,810,064, an increase of 68,355 over the previous year and 595,827 over the 1950 enrollment figure. Of the pupils currently enrolled, 1,293,762 are in elementary schools and 516,302 in secondary schools.

State School Superintendent George T. Wilkins has reported that 39,634 students are attending classes less than a full day this year as a result of double-shift programs necessary because of classroom shortages. Of the total, 24,811 of the double-shift students are in Chicago.

Personal Income Rises

The preliminary estimate for Illinois personal income for 1961 is \$27.3 billion, according to *Business Week's* late year-end measure of personal income. This would represent an increase of 3.5 percent over 1960.

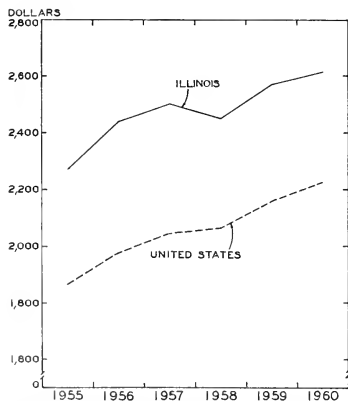
The *Business Week* forecast for 1962 Illinois personal income is \$29.0 billion, an increase of 6.2 percent over 1961. Corresponding percentage changes for the nation are an estimated increase of 3.0 percent for 1961 and a forecasted increase of 6.5 percent for 1962.

In 1960 Illinois personal income reached a new high of \$26.4 billion, 3 percent above the 1959 figure. Wage and salary disbursements amounted to \$18.5 billion. Of this total, \$6.8 billion was contributed by manufacturing, \$3.6 billion by wholesale and retail trade, \$2.3 billion by government, and \$1.9 billion by services. Farm and non-farm proprietors' income totaled \$2.7 billion and property income amounted to \$3.3 billion.

In 1960 Illinois again retained its third place rank in total personal income among the 50 states and the District of Columbia, preceded only by New York and California. On the basis of per capita income Illinois ranked eighth, with an average per capita income of \$2,613. This also was a record high for the State, 1.6 percent above 1959 and 15 percent above 1955 (see chart).

Illinois has always ranked well above the national per capita income average. Between 1940 and 1960, however, total personal income in Illinois rose 343 percent, whereas the increase for the nation as a whole was 407 percent.

PER CAPITA PERSONAL INCOME



Source: U.S. Department of Commerce, *Survey of Current Business*, August, 1961, p. 13.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1961

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$28,730 ^a	1,290,627 ^a	\$558,462		\$21,403 ^a	\$18,687 ^a
Percentage change from	Oct., 1961	-28.7	-1.5	+2.2	+12	+0.2	-0.3
	Nov., 1960	-29.6	+6.1	+4.5	+7	+14.3	-1.9
NORTHERN ILLINOIS							
Chicago							
Chicago		\$21,777	946,753	\$398,184		\$19,830	\$16,206
Percentage change from	Oct., 1961	-28.8	-1.2	+1.9	+13	+0.7	-0.5
	Nov., 1960	-15.5	+7.1	+3.6	+8	+15.1	-2.6
Aurora							
Aurora		\$ 163	n.a.	\$ 8,645		\$ 83	\$ 172
Percentage change from	Oct., 1961	-78.1		+0.5	+7	+5	+2.5
	Nov., 1960	-91.7		-2.3	+2	-0.8	+7.9
Elgin							
Elgin		\$ 720	n.a.	\$ 6,307		\$ 57	\$ 208
Percentage change from	Oct., 1961	+44.3		+4.4	n.a.	+0.7	+30.3
	Nov., 1960	+130.8		+11.8		+0.9	+33.2
Joliet							
Joliet		\$ 991	n.a.	\$10,977		\$ 92	\$ 118
Percentage change from	Oct., 1961	-25.2		-2.1	+9	-7.3	-1.6
	Nov., 1960	+102.7		+15.5	+14	+4.1	+1.0
Kankakee							
Kankakee		\$ 123	n.a.	\$ 5,472		n.a.	\$ 70
Percentage change from	Oct., 1961	-67.5		+4.1	n.a.		+2.1
	Nov., 1960	-52.1		+11.5			+18.8
Rock Island-Moline							
Rock Island-Moline		\$ 1,049	26,562	\$11,055		\$ 125 ^b	\$ 171
Percentage change from	Oct., 1961	-4.6	-5.5	+0.4	n.a.	+4.1	-18.4
	Nov., 1960	-9.5	+2.5	+4.0		-0.8	-27.3
Rockford							
Rockford		\$ 994	58,459 ^c	\$19,287		\$ 206	\$ 261
Percentage change from	Oct., 1961	-7.8	+8.0	+3.9	+9 ^c	-2.8	+4.8
	Nov., 1960	-36.6	-5.9	+7.1	-5 ^c	-1.5	+8.1
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 374	12,032	\$ 6,252		\$ 87	\$ 148
Percentage change from	Oct., 1961	+20.6	-1.4	-0.2	n.a.	-15.1	+5.6
	Nov., 1960	+72.4	+13.2	+9.4		+7.5	+15.6
Champaign-Urbana							
Champaign-Urbana		\$ 235	16,544	\$10,628		\$ 94	\$ 147
Percentage change from	Oct., 1961	-63.8	-1.3	+19.1	n.a.	-10.7	+6.5
	Nov., 1960	+44.4	+9.7	+24.4		+5.0	+4.3
Danville							
Danville		\$ 98	17,185	\$ 6,386		\$ 55	\$ 80
Percentage change from	Oct., 1961	-78.7	+1.1	-1.5	+11 ^c	-13.9	-2.4
	Nov., 1960	-45.9	+20.2	+6.1	+17 ^c	+8.5	+2.4
Decatur							
Decatur		\$ 128	34,609	\$12,205		\$ 129	\$ 138
Percentage change from	Oct., 1961	-78.6	-10.0	+2.1	+8	-13.8	+4.2
	Nov., 1960	-97.6	-7.7	+6.7	-2	+7.5	+15.5
Galesburg							
Galesburg		\$ 122	9,508	\$ 5,011		n.a.	\$ 42
Percentage change from	Oct., 1961	-63.0	-1.7	-0.1	n.a.		-23.4
	Nov., 1960	-12.9	+0.6	+11.9			-19.0
Peoria							
Peoria		\$ 1,198	57,522 ^c	\$17,633		\$ 262	\$ 365
Percentage change from	Oct., 1961	+69.3	-6.8	+2.1	-1	+0.8	-0.8
	Nov., 1960	+277.9	+5.1	+4.9	-4	+17.0	+4.6
Quincy							
Quincy		\$ 209	14,789	\$ 6,056		\$ 60	\$ 86
Percentage change from	Oct., 1961	-18.0	+14.2	+5.7	n.a.	-5.4	+12.5
	Nov., 1960	-30.1	+9.3	+10.2		+15.0	+9.7
Springfield							
Springfield		\$ 670	44,286	\$14,908		\$ 138	\$ 291
Percentage change from	Oct., 1961	-27.3	+0.1	+2.1	+5 ^c	-12.8	-3.1
	Nov., 1960	-66.8	+15.4	+9.2	0 ^c	+5.3	-4.2
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 227	16,884	\$ 8,967		\$ 140	\$ 84
Percentage change from	Oct., 1961	+63.1	-6.9	+2.7	n.a.	-4.6	+11.2
	Nov., 1960	+305.4	-1.4	+1.3		-2.1	+9.2
Alton							
Alton		\$ 174	23,957	\$ 5,335		\$ 47	\$ 36
Percentage change from	Oct., 1961	-26.3	-8.7	+10.0	n.a.	-2.1	-12.1
	Nov., 1960	-21.6	+12.1	+2.4		+6.0	-16.7
Belleville							
Belleville		\$ 89	11,537	\$ 5,155		n.a.	\$ 56
Percentage change from	Oct., 1961	-19.1	-7.0	+2.7	n.a.		-12.4
	Nov., 1960	+29.0	-6.6	+8.6			+4.9

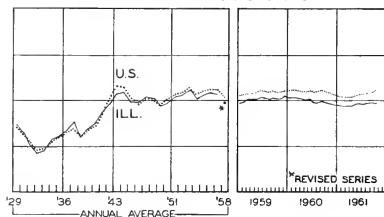
* Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.

Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for September, 1961, the latest available. Comparisons relate to August, 1961, and September, 1960. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending November 10, 1961, and November 11, 1960.

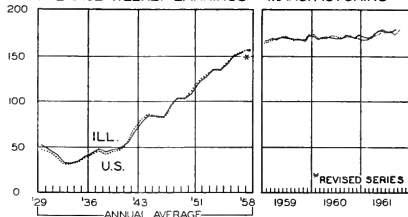
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

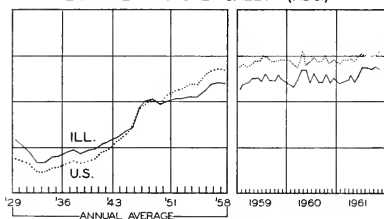
EMPLOYMENT MANUFACTURING



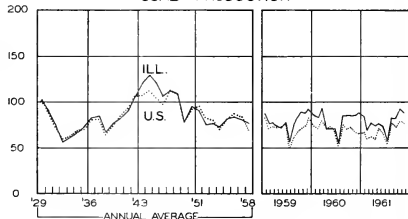
AVERAGE WEEKLY EARNINGS—MANUFACTURING



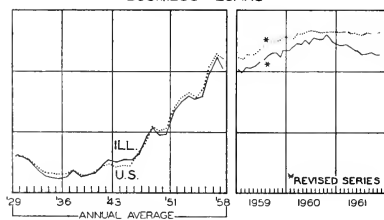
DEPARTMENT STORE SALES (ADJ.)



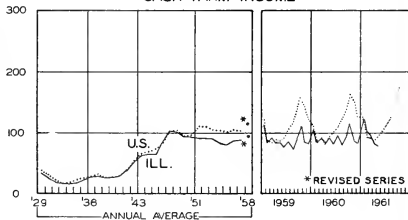
COAL PRODUCTION



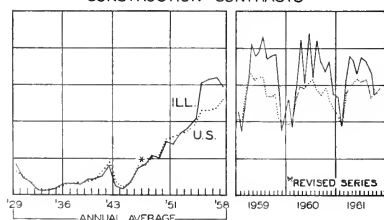
BUSINESS LOANS



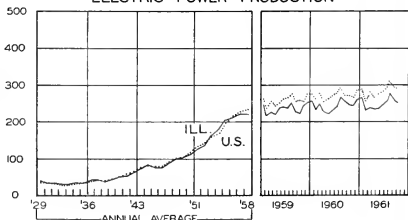
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 19

FEBRUARY, 1962

NUMBER 2

HIGHLIGHTS OF BUSINESS IN JANUARY

Business expansion hit a snag in January. The seasonally adjusted index of industrial production fell back 1 point to 114 percent of the 1957 average despite a further advance in steel production and an output of 628,000 passenger cars, half again as many as were turned out in January, 1961. Retail sales, after seasonal adjustment, declined for the second consecutive month, falling to \$18.7 billion. Personal income was off \$1.5 billion to a seasonally adjusted annual rate of \$430.25 billion.

The seasonally adjusted rate of unemployment fell to 5.8 percent of the civilian labor force, the first time it has been below 6 percent in many months. However, the drop was mainly the result of continued large withdrawals from the labor force, and hard-core unemployment persists in many areas.

Construction Steady

The value of new construction put in place dropped from \$4.7 billion in December to \$4.2 billion in January. However, this decline was slightly smaller than the usual 12 percent shrinkage between December and January. As compared with the year-earlier month, January construction was up 8 percent.

New private construction expenditures in January amounted to \$3.1 billion, 8 percent less than the preceding month but 11 percent more than January, 1961. The normal seasonal decline between December and January in this type of construction is estimated at 10 percent, as it is for nonfarm residential building, the largest component of private construction. The value of the latter totaled \$1.8 billion, below December but 21 percent more than a year ago.

Spending on new public construction in January amounted to \$1.1 billion, down 18 percent from December and 1 percent from January, 1961. The drop from the December total was about normal for the season and was largely the result of big cutbacks in construction of highways and military facilities.

Sales Decline Slightly

Total sales of manufacturing and trade firms were off \$310 million in December to \$64.1 billion, after seasonal adjustment. The decline reflected reductions of \$440 million in sales by wholesalers to \$12.7 billion and of \$250 million by retailers to \$18.9 billion, the former centered in nondurable goods and the latter due mainly to a drop in automobile dealers' volume from the near-record

level in November. Sales by manufacturers rose \$380 million to \$32.6 billion, with gains being made by the primary metals, electrical machinery, aircraft, and most major nondurable goods industries.

After seasonal adjustment, the book value of inventories held by manufacturing and trade firms at the end of 1961 rose by almost \$500 million to a record \$95.6 billion, up \$1.5 billion from the year-earlier figure. Half of the increase in December was in manufacturers' stocks, principally those of nondurable goods producers. The rest was about equally divided between wholesalers and retailers.

More Consumer Debt

December brought the usual sharp holiday rise in the short- and intermediate-term debt of consumers, the unadjusted total increasing \$1.7 billion to \$57.1 billion. After adjustment for seasonal influences, the rise was estimated at \$395 million, two-thirds of which was in instalment debt and one-third in noninstalment debt.

Automobile paper outstanding increased an adjusted \$110 million, compared with \$152 million in November, the difference reflecting lower automobile sales in December. Other consumer goods paper rose an adjusted \$82 million and personal loans \$80 million.

At the end of 1961 the instalment debt total of \$43.2 billion was \$575 million above the year-earlier figure, despite a drop of \$484 million in outstanding automobile paper. Noninstalment debt at \$14.0 billion was up \$807 million over the year.

Prices Show Little Change

The business recovery and expansion has had little impact on prices so far. Although the consumer price index gives signs of continuing the upward creep that has characterized it in the past few years, the December index at 128.2 (1947-49 = 100) was off one-tenth of a point, as was the November figure. Over the year, the index rose about half of 1 percent, mostly as a result of the upward trend in prices for services.

The wholesale price index in December stood at 119.2 (1947-49 = 100), 1 percentage point above the low for 1961 in June but still below December, 1960. Most of the increase from June was in prices of farm products and processed foods. A further slight increase in wholesale prices in January was indicated by the weekly index, which was at 119.5 at the end of the month.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

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A 25-Hour Workweek?

Are we ready for a substantial cut in the workweek? Continuing high levels of unemployment have spurred union leaders to demand such a reduction. If hours of work could be reduced generally to 30, or even to 25, the unemployment problem would be solved, according to these views. More recently, the movement to a shorter workweek has received wide publicity as a result of the success of the electrical workers union in New York in negotiating a basic 5-hour day, 25-hour workweek, the first in the history of the construction industry. This success puts pressure on other unions to seek corresponding workweek reductions for their members.

To be sure, some union agitation for a sharp reduction in the workweek may be largely a bargaining tactic. It is often not clear whether a shorter workweek is of principal interest or whether this demand is a device for securing more money for the same hours of work. In any case, our focus here is on the desirability of widespread, substantial cuts in the workweek while maintaining weekly pay.

The Issue

The length of the workweek is essentially a question of preference. The greater the value that is placed on leisure by a society, the shorter is the desired workweek. On the other hand, as desire for material goods increases, a longer workweek will be considered as optimal. At the same time, various other considerations serve to modify these basic goals, particularly the resources of a society and its ability to increase productivity.

The workweek in the United States, one of the most materially minded countries in the world, is shorter than in most other nations. By all appearances, material desires in this country have not declined over the years—if anything, they seem to have increased. Nevertheless, continuing advances in productivity have made it possible to reduce the workweek gradually over the years to an average of barely 40 hours at the present time.

Further gradual reductions in the workweek will undoubtedly take place; about this, there is no issue. The point at issue is the demand for substantial reductions in the workweek with no cut in weekly pay. From the viewpoint of various union leaders, such reductions are needed to counteract the continued high level of unemployment. According to them, the full effects of the swing toward

automation have not yet been felt, partly because highly automated factories are not yet common and partly because the recent business upswing has mitigated the unemployment problem.

From a long-run point of view, they feel that unemployment can only be reduced by cutting the workweek. Furthermore, if weekly pay is maintained, a basic assumption in their argument, the additional leisure available to workers would lead to increased spending which, in turn, would increase the demand for all types of goods and services, thereby permitting industry to spread the increased hourly rates of pay over more units of production.

Some Misconceptions

From a long-term point of view, these arguments may have merit. Within the framework of the present situation, however, they do not seem to take full account of current realities.

Past reductions in hours of work have been made possible, everybody is agreed, by increased productivity. The effects on cost and output of a substantial reduction in working hours at this time could not possibly be offset by high productivity for many years.

To see why this is so, one only has to look at the arithmetic of a shorter workweek. If a worker currently on a 40-hour week earning \$2.50 per hour has his hours reduced to 30, the hourly rate (assuming maintenance of weekly pay) would increase to 100/30 or \$3.33 per hour. Much of this increase of 33 percent will be passed on in the form of higher prices, since it is hardly likely to be offset by productivity gains. Current increases in productivity average about 3 to 4 percent annually, and even the most optimistic economists do not expect productivity in the near future to advance by more than 5 percent per year.

The immediate result of a widespread reduction in the workweek would be a lowered standard of living for millions of workers as output drops and the purchasing power of their weekly pay is reduced. It would undoubtedly impair the nation's current rate of growth and its international balance-of-payments position.

Moreover, it is doubtful whether a sharp cut in the workweek would have much effect in reducing the amount of unemployment. This is so for three reasons. First, there is ample evidence that even on a 35- to 40-hour week many, if not most, workers are more interested in increased income than in working fewer hours. Thus, in the rubber industry, where some plants have been on a 6-hour schedule for many years, substantial numbers of workers appear to have second jobs of all types—often in nonunion plants! Such a tendency would undoubtedly become much more widespread should other workers go on a 6-hour or on a 5-hour day. Many more people would be looking for second jobs.

Second, unemployment is a fluid concept: it attempts to measure how many people are *looking* for work and have been unable to find it. A very short workweek would undoubtedly bring many more entrants into the full-time labor force, particularly married women and older people who would realize that a 6-hour workday is not incompatible with maintaining a household or other activities. The net result could be, paradoxically, an increase in total unemployment despite spreading of the work.

Third, there is no assurance that spreading of the work is particularly feasible. Thus, a chronic shortage of

(Continued on page 8)

PAPER BOX PRODUCTION

The paperboard box plays an essential role in modern commerce. A lightweight but strong material, it offers an economical means either of protecting individual items from exposure and deterioration or of bundling a number of products together for shipment. Today, paperboard boxes are produced in diverse shapes, sizes, and paper grades to fit the shipping or marketing needs of almost every conceivable piece of merchandise.

The Industry in Perspective

Although commercially produced paper boxes appeared in the United States as early as 1839, their high cost and scarce supply limited widespread use, a problem which was not resolved until the closing years of the nineteenth century when improved machinery and new papermaking processes were introduced. The concurrent rise of large-scale distribution of products produced an extensive demand for paper boxes. Since that time, the industry has expanded at a vigorous pace. There were 729 paper box plants shipping products valued at \$27 million in 1899; by 1960 the industry had swelled to nearly 1,900 plants with total shipments valued at more than \$3.8 billion.

The industry, which is the largest of the various packaging material producers, is found today in all but a few states. However, it tends to be dispersed according to the concentration of industry and population. Most plants are situated near market outlets, primarily because it is usually cheaper to ship sheet or rolled paperboard from mills for conversion than to ship the bulky finished product long distances to consumers.

The paper box industry, unlike the complex papermaking industry, is typified by small plants with comparatively simple equipment, such as pressing, forming, gluing, and cutting machinery. As a result, entry is less difficult and competition is keen. Nearly 93 percent of the industry's plants employ fewer than 250 persons, and no establishment has more than 2,500 workers.

Paper Box Products

Shipping containers are the industry's principal product, annually accounting for about half of the total value of all paper box shipments and two-thirds of total industry tonnage. More than 97 percent of these containers are made from corrugated fiber, the remainder being of solid fiber. Today, paper shipping containers are virtually unchallenged by other types of shipping boxes; besides being used for shipment of more than 90 percent of the nation's packaged industrial freight, such containers also find heavy utilization in the movement of large consumer goods, such as television sets, typewriters, and appliances.

Retail goods packaging tends to subdivide into three main categories: folding cartons, set-up boxes, and sanitary food containers. Of these subgroups, folding cartons account for the largest volume in terms of dollars, with annual shipments of more than \$900 million in 1960. These cartons, which may be either plain or printed, are produced by bending cardboard which has been cut and

creased in a variety of sizes and shapes. Besides the food industry, which is the biggest user of folding cartons (excluding sanitary food containers), other major consumers include the soap, beverage, and tobacco industries.

Unlike the folding carton, the set-up box is a noncollapsible container delivered to the packager ready for use. Set-up boxes, which had a shipment value of \$232 million in 1960, range in construction from simple trays to elaborate hinged-lid and display boxes. Typical users of set-up boxes are the candy, drug, and shoe industries.

One of the fastest growing products of the industry has been the sanitary food container. This specially prepared paperboard, which was nearly nonexistent 30 years ago, today accounts for about four-fifths of total sales of paper boxes used for retail display. Although sanitary food containers have found a growing number of consumers, their greatest stimulus during the past decade has come from the growth in frozen food consumption, the increasing use of throwaway cups, and the shift of the milk industry to paperboard cartons.

Paper Boxes in Illinois

Illinois, which today ranks second only to New York in the manufacture of paper boxes, has been a major producer since before World War I. The growth of box-making here was perhaps inevitable because of the pivotal location of Illinois as a national distributing center, the increasing packaging needs of the state's industrial complex, and proximity to paper supplies.

Since 1939, the industry in Illinois has grown from 100 to 200 plants, and employment has jumped from 5,400 to 16,400 persons. In 1959, the industry's value added by manufacture in the State reached \$139 million, more than twice the 1947 figure.

Paper boxes are produced in 24 Illinois counties, but more than 180 plants, or 90 percent, operate in 10 counties within a 40 mile radius of Cook County. This county alone has 150 factories and is the nation's top county in paper box production, having 35 of the 49 Illinois plants with more than 100 employees. Other counties with three or more plants are Madison, McHenry, Kankakee, Kane, Adams, and Will.

As is true in many box-fabricating states, the principal products of the industry in Illinois are corrugated and solid fiber shipping containers. Illinois is the national leader in this output; shipments of these containers in 1958 were valued at \$168 million, nearly 38 percent more than in 1954. The State ranks second in the production of folding paperboard boxes, third in set-up boxes, and fourth in sanitary food containers.

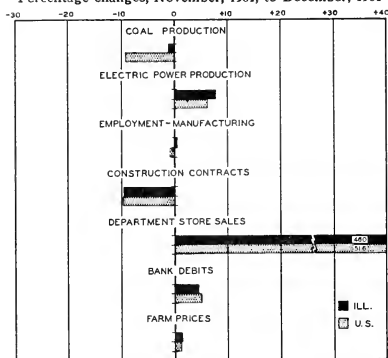
The outlook for the industry, both in Illinois and nationally, appears promising. During the postwar period, the demand for paper boxes increased at a faster rate than any other packaging material except plastics. With an anticipated 60 to 80 percent rise in all packaging materials by 1970, the paper box's numerous advantages should strongly favor a continued competitive edge.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, November, 1961, to December, 1961



* Not seasonally adjusted.

ILLINOIS BUSINESS INDEXES

Item	Dec. 1961 (1947-49 = 100)	Percentage change from:	
		Nov. 1961	Dec. 1960
Electric power ¹	269.6	+7.8	+3.8
Coal production ²	87.0	-1.2	-1.0
Employment—manufacturing ³	97.2	+0.1	+2.0
Weekly earnings—manufacturing ⁴	181.0 ^a	+0.6	+6.1
Dept. store sales in Chicago ⁵	130.0 ^b	+0.8	+2.4
Consumer prices in Chicago ⁶	130.9	0.0	+0.2
Construction contracts ⁷	262.1	-9.7	-4.0
Bank debts ⁸	255.6	+4.4	+6.1
Farm prices received ⁹	80.0	+1.3	-1.2
Life insurance sales (ordinary) ¹⁰	378.9	+8.7	+4.0
Petroleum production ¹¹	124.3	+2.5	+8.0

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor;
⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Data for November, 1961, compared with October, 1961, and November, 1960. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Dec. 1961	Percentage change from:	
		Nov. 1961	Dec. 1960
Personal income ¹	431.3 ^a	+ 0.5	+ 6.8
Manufacturing ¹	391.2 ^a	+ 1.2	+12.0
Sales.....	55.3 ^{a, b}	+ 0.5	+ 3.0
Inventories.....	23.4	- 5.2	+15.1
New construction activity ¹	17.5	- 6.2	- 1.2
Private residential.....	16.0	-16.1	+ 1.5
Private nonresidential.....	21.6 ^c	- 3.6	+ 1.2
Total public.....	15.8 ^c	- 1.5	+14.1
Foreign trade ¹	5.8 ^c	- 8.8	-22.7
Merchandise exports.....	21.6 ^c	- 3.6	+ 1.2
Merchandise imports.....	15.8 ^c	- 1.5	+14.1
Excess of exports.....	5.8 ^c	- 8.8	-22.7
Consumer credit outstanding ²	57.1 ^b	+ 3.0	+ 2.5
Total credit.....	43.2 ^b	+ 1.8	+ 1.4
Instalment credit.....	38.0 ^b	+ 4.2	+ 1.0
Business loans ³	45.4 ^c	-11.8	+17.4
Cash farm income ⁴			
Indexes (1947-49 = 100)			
Industrial production ²			
Combined index.....	115 ^{a, d}	+ 0.9	+11.7
Durable manufactures.....	110 ^{a, d}	+ 0.9	+14.6
Nondurable manufactures.....	122 ^{a, d}	+ 0.8	+ 9.9
Minerals.....	101 ^{a, d}	0.0	+ 3.1
Manufacturing employment ⁴	99 ^a	+ 0.4	+ 2.6
Production workers.....	102 ^a	- 0.2	+ 4.7
Factory worker earnings ⁴	178 ^a	+ 0.4	+ 3.5
Average hourly earnings.....	181 ^a	+ 0.2	+ 8.3
Average weekly earnings.....	238	- 9.8	- 0.2
Construction contracts ⁵	156 ^a	+ 2.0	+ 6.8
Department store sales ⁶	128	- 0.1	+ 5.5
Consumer price index ¹			
Wholesale prices ⁴	119	+ 0.3	- 0.3
All commodities.....	88	+ 0.3	- 0.9
Farm products.....	109	+ 0.8	- 0.4
Food.....	128	+ 0.2	- 0.2
Other.....			
Farm prices ⁷	89	+ 1.1	0.0
Received by farmers.....	121	+ 0.8	+ 1.7
Paid by farmers.....	79 ^f	0.0	- 2.5
Parity ratio.....			

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b End of month. ^c Data for November, 1961, compared with October, 1961, and November, 1960. ^d 1957 = 100. ^e Revised. ^f Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1962				1961	
	Jan. 27	Jan. 20	Jan. 13	Jan. 6	Dec. 30	Jan. 28
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,371	1,423	1,292	1,455	1,311	1,171
Electric power by utilities.....mil. of kw-hr.....	16,686	16,857	16,957	16,021	15,738	15,641
Motor vehicles (Wards).....number in thous.....	166	163	167	140	127	116
Petroleum (daily avg.).....thous. bbl.....	7,420	7,388	7,403	7,445	7,384	7,198
Steel.....1947-49 = 100.....	139	136	133	133	122	85
Freight carloadings.....thous. of cars.....	533	533	504	469	422	476
Department store sales.....1947-49 = 100.....	117	125	127	116	125	103
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	119.6	119.7	119.6	119.5	119.4	119.9 ^a
Other than farm products and foods.....1947-49 = 100.....	127.8	127.9	127.9	127.8	127.7	128.1 ^a
22 commodities.....1947-49 = 100.....	85.1	85.5	85.7	85.7	84.9	83.1
Finance:						
Business loans.....mil. of dol.....	31,981	32,230	32,539	32,819	32,931	31,375
Failures, industrial and commercial.....number.....	389	396	319	231	222	400

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for January, 1961.

RECENT ECONOMIC CHANGES

Gross National Product

The nation's output of goods and services rose to a seasonally adjusted annual rate of \$540.2 billion in the fourth quarter of 1961, an all-time high, according to a preliminary estimate by the Council of Economic Advisers. The gain of \$14.4 billion over the previous quarter continued the general upsurge of the nation's output from the low of \$500.8 billion in the first quarter of 1961.

The major factor in the fourth quarter rise was a \$6.8 billion increase in personal consumption to an annual rate of \$347.8 billion. Fixed investment rose to an annual rate of \$71.4 billion, up \$2.7 billion from the previous period and \$3.9 billion from the year before.

Government purchases of goods and services also advanced during the fourth quarter, to an annual rate of \$112.5 billion, compared with \$109 billion in the third quarter of 1961 and \$101.6 billion in the fourth quarter of 1960. Net exports of goods and services rose most of all, up \$1.4 billion to an annual rate of \$4 billion.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(Seasonally adjusted, billions of dollars at annual rates)

	4th Qtr.* 1961	3rd Qtr. 1961	4th Qtr. 1960
Gross national product.....	540.2	525.8	504.5
Personal consumption.....	347.8	341.0	332.3
Durable goods.....	45.2	42.3	43.8
Nondurable goods.....	158.8	156.2	153.1
Services.....	143.8	142.4	135.4
Domestic investment.....	75.9	73.2	65.6
New construction.....	43.4	42.7	40.7
Producers' durable equipment	28.0	26.0	26.7
Change in business inventories	4.5	4.5	-1.9
Nonfarm inventories only..	4.3	4.1	-2.2
Net exports of goods and services	4.0	2.6	5.1
Government purchases.....	112.5	109.0	101.6

INCOME AND SAVINGS

National income.....	n.a.	434.3	416.5
Personal income.....	428.6	420.3	405.4
Disposable personal income.....	375.6	367.7	354.9
Personal saving.....	26.6	26.8	22.7

* Preliminary estimates by Council of Economic Advisers.
Source: U.S. Department of Commerce.

Unemployment Rate Falls

The number of jobless in January rose 572,000 from December, 1961. However, because the increase was less than normal, the seasonally adjusted rate was the lowest in 16 months. This brought the unemployment total to 4,663,000 of the total civilian labor force of 69,721,000. The employment figure was the highest January total on record. However, the Labor Department indicated that there were still 1,250,000 "hard core" unemployed who had been out of work for four months or more.

The decrease in employment occurred only in the non-agricultural area and primarily among production workers. Construction, transportation, and mining employment also showed declines during January. Labor Force data, in thousands of workers, are as follows:

	Jan. 1962	Dec. 1961	Jan. 1961
Civilian labor force.....	69,721	70,559	69,837
Employment.....	65,058	66,467	64,452
Agricultural.....	4,417	4,418	4,634
Nonagricultural.....	60,641	62,049	59,818
Unemployment.....	4,663	4,091	5,385
Seasonally adjusted rate.....	5.8	6.1	6.6

Dividend Payments Set High in 1961

Cash dividend payments by corporations issuing public reports reached a record \$14.2 billion in 1961, 4.5 percent over the previous record of 1960. Dividends of manufacturing corporations rose 4.3 percent, totaling \$7.4 billion for the year. The increase resulted mostly from high December "extras," of which about half were provided by a large auto producer. The increase in nonmanufacturing was the same as in manufacturing, but was spread over the entire year. Communications, electric and gas utilities, and finance sector dividends showed 9, 7, and 6 percent gains respectively above those of 1960.

Steel Production Up

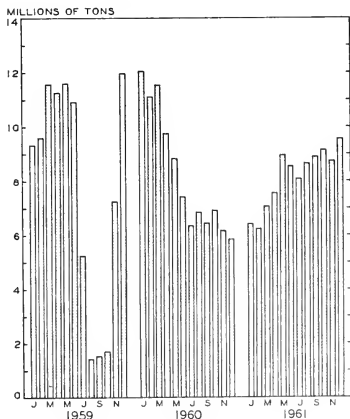
Steel production rose to 8.9 million tons in December, up slightly from the third quarter 1961 monthly average and more than 3.3 million tons higher than in December of 1960, as indicated in the chart.

While some users of steel may have stepped up their purchases as a hedge against a possible strike, the substantial increase in steel output during the fourth quarter was mainly due to stepped-up automobile production. During the fourth quarter of 1961 automobile production totaled 1.8 million units, a 90 percent increase over the third-quarter total. Tentative plans call for the auto industry to keep production at this level during the first quarter of the year.

The higher rate of steel production reflected higher shipments to and consumption by metal fabricators in the fourth quarter. Shipments totaled 13.7 million tons, up 7 percent, while consumption rose 8.3 percent from the third quarter to 14.4 million tons.

(Continued on page 8)

STEEL PRODUCTION



Source: American Iron and Steel Institute.

ECONOMIC TRENDS IN THE FILM INDUSTRY

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The motion picture industry is about 65 years old. Rapidly changing technology has made its life highly dynamic. Perhaps the most significant change in the last 15 years has been the introduction of television. Providing a substitute for theater films, it has caused a marked decline in the demand for theatrical films. Another major source of change in the industry was the series of postwar antitrust actions against leading producers, distributors, and theater owners.

Some of the consequences of these changes are shown in Table 1. In 1946 Americans spent \$1,692 million or 1.15 percent of their consumption expenditures on motion picture admissions. In 1960 they spent \$1,394 million, but this was only 0.42 percent of their consumption expenditures. The 1946 motion picture admissions were 19.6 percent of recreation expenditures, whereas the 1960 motion picture admissions amounted to only 7.2 percent of recreation expenditures. This decline occurred despite a constant increase in average admission prices during the postwar inflationary period. Some 6,000 indoor theaters closed during this period, and most of these were smaller, later-run houses that had charged lower-than-average admission prices. Their closing accentuated the increase in average admission prices.

More than offsetting the rise in admission prices was a steady decline in average weekly attendance, also shown in Table 1. It fell from 79.4 million in 1946 to 37.8 million in 1957. Although there was an increase to 40.9 million by 1960 (and industry officials assert that the weekly average rose in 1961), attendance is still below the late 1940's.

The supply side of the motion picture industry has been just as dynamic. The new competition of drive-in theaters

has further decreased the patronage of indoor theaters. In 1946 there were 18,700 indoor theaters and 300 drive-ins. The 1958 Census of Business reports 12,291 operating indoor theaters and 4,063 drive-ins. The drive-ins were 25 percent of all theaters and collected 20 percent of all admissions.

The Census of Business statistics for the Chicago metropolitan area are illustrative of the changes in Illinois. In 1948 there were 421 indoor theaters and 12 drive-ins in the Chicago area. In 1958 there were 261 indoor theaters and 29 drive-ins in the Chicago area.

The government prosecution of the eight largest distributors in *United States v. Paramount Pictures*, 334 U.S. 131 (1948), established the existence of a nationwide combination in restraint of trade in the distribution and exhibition of pictures. The five major firms that were producers, distributors, and exhibitors — Paramount, Twentieth Century-Fox, Warner Brothers, Loew's, and RKO — were ordered to divorce their theater circuits from their production and distribution facilities. Between 1949 and 1959, these five firms set up separate firms to take over their 3,137 theaters and distributed the shares of the new theater companies. Their theaters had accounted for only 17 percent of all theaters but had included 70 percent of the large, first-run theaters in the country. The five majors and the three minor distributors — Columbia, Universal, and United Artists — were enjoined from continuing a number of their former marketing practices. These included distributor control of theater admission prices, block booking, agreements fixing prices, runs and clearances, and other devices that discriminated against small exhibitors.

The leading private, treble-damage action against the eight majors was brought by the owners of the Jackson Park theater on the South Side of Chicago. This case, *Bigelow v. RKO Radio Pictures*, 327 U.S. 251 (1946), established two methods of proving damages in such cases. Prior to this case most antitrust actions by distributors against the majors had been dismissed on the ground that the damages were too speculative.

Impact on Production

The impact of these factors on the production of motion pictures has changed the quantity and quality of pictures and the organization of this sector of the industry. Before World War II, domestic film production averaged from 400 to 500 pictures a year. But many of these were "B"-grade features and Westerns, for which the demand has been sharply reduced because television has taken over the market for this class of entertainment. During the last five years the estimates show annual domestic feature production at less than 250 pictures. Many critics argue, however, that there are more first-grade pictures produced now than prior to television, partly because of this new competition.

The antitrust decrees have caused a radical reorganization in motion picture production. Before World War II almost all first-grade features were produced by the seven producer-defendants in the *Paramount* prosecution or by the few independent producers who distributed their films through United Artists. Since the end of the national combine following divorcement of the five circuits, independent producers are not excluded from the key

Table 1. Motion Picture Admissions, Average Admission Prices, and Estimated Attendance, 1935, 1939, 1941, and 1945-60

Year	Admissions inc. taxes (Millions)	Admissions as % of consumption expenditures	Average admission price inc. taxes (Cents)	Estimated average weekly attendance (Millions)
1935.....	\$ 556	.988	24 9	42 9
1939.....	659	.975	26 5	47 8
1941.....	809	.988	28 5	54 6
1945.....	1,450	1.191	39 8	70 1
1946.....	1,692	1.150	41 0	79 4
1947.....	1,594	.964	42 8	71 6
1948.....	1,503	.843	43 3	66 8
1949.....	1,445	.798	44 4	62 6
1950.....	1,367	.701	44 2	59 5
1951.....	1,299	.619	44 9	55 6
1952.....	1,233	.561	45 3	52 3
1953.....	1,172	.504	47 5	47 4
1954.....	1,210	.508	50 5	46 1
1955.....	1,217	.474	53 1	44 1
1956.....	1,225	.455	54 3	43 4
1957.....	1,116	.392	56 8	37 8
1958.....	1,168	.398	59 1	38 0
1959.....	1,278	.407	60 9	40 4
1960.....	1,394	.424	65 6	40 9

Sources: Box office receipts: U.S. Department of Commerce, *U.S. Income and Output*, 1958, p. 151, *National Income Supplement to the Survey of Current Business*, 1954, pp. 206-8, and *Survey of Current Business*, July, 1961. Admission prices: derived from U.S. Department of Commerce data, and U.S. Bureau of Labor Statistics *Admission Price Index*. Attendance: box office receipts divided by admission prices.

theaters. As a result, independent production has increased greatly. In 1957 it was estimated that 57 percent of the films released were made by independent producers.

Because of the intermittent nature of film production, economic factors strongly favor independent operators. A film maker can employ studio space, equipment, and actors for just one picture instead of owning facilities and giving actors long-term contracts. As a result of the high overhead costs of studio operation and the sharp decrease in the total number of films made, three firms have disposed of their production facilities. RKO Radio Pictures sold its studios in early 1958 to Desilu Productions, a television film producer. Universal sold its studios in December, 1958, and leased back the use of them for a specific number of days per year. Republic ceased all production in mid-1958 and now leases studio space to television film producers. The other producers also lease space to independent film makers and most have also entered the production of films for television.

Impact on Distribution

Distribution, the wholesaling function of the motion picture industry, has changed the least. The national distributors have 31 to 35 film exchanges in major cities to negotiate licensing of films. RKO and Republic have closed their exchanges and left the business. But there are still 10 national distributors, and this is more than adequate to market the reduced supply of theatrical films. The names and film rentals (sales) of the national distributors are shown in Table 2. The four majors—MGM, Paramount, Twentieth Century-Fox, and Warner Brothers—whose predivorcement rentals were the highest because of preferential access to their combined theater monopolies, have shown the least increase in rentals. Other distributors who have specialized in the distribution of independent productions, such as Allied Artists, Columbia, and United Artists, have shown radical increases in rentals since 1950.

For a number of reasons the distributors have not suffered the declines in gross incomes that have hit the theaters. As is shown in Table 2, they receive large rentals from television stations, both from release of their old theatrical films and from new productions which some of the firms make specially for television. The other major source of revenue for distributors that has increased is

film rentals from foreign countries. In 1960 the estimated remittances of film rentals from abroad to American distributors was \$215 million. The 1960 rentals of two of the largest firms are illustrative. Paramount received \$33.6 million or 44.0 percent of its gross rentals from abroad. Twentieth Century-Fox received \$43.4 million or 39.9 percent of its gross rentals from foreign countries.

It should be noted that the production-distribution sector of the motion picture industry faces much greater market uncertainty than most industries. Industry executives estimate that at least 50 percent of all pictures released show net losses. In the 10 years 1947-56, for example, MGM was reported to have had an over-all net loss on new productions of \$6 million. This was hidden in consolidated income reports for the period by \$16.8 million revenues on reissued old pictures, \$11.5 million of which was earned by *Gone With the Wind*.

Impact on Exhibition

The theater section of the industry has been the hardest hit by television and the other changes in the last 20 years. Since the total seats of the 6,000 indoor theaters that have closed have almost been offset by over 4,000 new drive-ins, the excess capacity in exhibition has been reduced little. Furthermore, the monopoly buying power of the large theater circuits has been greatly curtailed by the antitrust decrees. The five circuits that were formerly affiliated with major producer-distributors no longer have a tight control on most first runs. Since the distributors were ordered to license each picture singly, circuits may no longer bargain for master deals to take a group of pictures at reduced rates. The result is that theater circuits now pay a greater proportion of gross admissions to distributors as film rentals.

As shown in Table 1, motion picture admissions of \$1,394 million in 1960 are about equal to those of 1950. But higher film rentals and increased costs of theater operation all make for reduced net profits. Distributors report that 1,000 key theaters take in about 70 percent of all admissions, 5,000 theaters taken 80 percent, and 7,500 theaters take in 90 percent. This leaves over 5,000 theaters which receive in total only 10 percent of gross admissions. In fact, it is estimated that refreshment sales in theaters in 1960 of \$260 million probably kept many marginal theaters from failing. It is estimated that the average customer of an indoor theater spends 6 cents on refreshments and the average customer of drive-ins spends 20 cents on refreshments.

United Paramount Theaters (American Broadcasting-Paramount Theaters), largest theater-circuit in the country and one of the five that were divorced from major producer-distributors, exemplifies the changes in circuit operation. Under the antitrust decree it was ordered to sell 874 theaters. At the time of the decree in 1949, it had 1,424 theaters with total receipts of \$89,925,000 or \$63,150 per theater. In 1960 it had 472 theaters with total receipts of \$86,281,000 or \$182,800 per theater. The other divorced theater circuits—National Theaters, Loew's Theaters, RKO Theaters, and Stanley Warner Corporation—have had similar contractions. Still these firms remain among the most profitable in the industry. Since they had previously specialized in well-located, first-run theaters and selectively disposed of money-losers, they remain owners of the best houses in the United States.

The most important issue in the motion picture industry today is the likely innovation of home viewing of new

Table 2. Distributors' World-Wide Film Rentals
(Thousands of dollars)

Distributor	1950 Film and TV rentals	1960 Film and TV rentals	1960 TV rentals
Allied Artists.....	9,104	16,138	n.a.
American-International.....	n.a.	n.a.
Buena Vista (Disney).....	7,294	23,406	4,998
Columbia Pictures.....	57,231	118,560	35,316*
Metro-Goldwyn-Mayer.....	102,825	114,331	14,128
Paramount Pictures.....	60,765	76,789	5,189
RKO Radio Pictures.....	48,163
Republic Pictures.....	30,311
Twentieth Century-Fox.....	90,842	108,812	7,520
United Artists.....	19,625 ^b	108,531	n.a.
Universal Pictures.....	55,591	58,430	n.a.
Warner Brothers.....	66,028	87,163*

* Columbia's subsidiary, Screen Gems, distributes both Columbia and Universal films to television stations.

^b 1951 rentals; 1950 not reported.

n.a. Not available.

Sources: Annual reports and prospectuses of firms.

feature pictures on pay television. Experiments have been carried on in a number of cities. When the techniques for color transmission and for controlling payment are fully perfected, television should become the main medium for viewing features. Most motion picture theaters will then be forced to close, and exhibition companies will suffer severe losses. In contrast, television transmission of new features could be a boon to the production-distribution sector of the industry. It would create a larger potential audience for future pictures than has ever existed before.

A 25-Hour Workweek?

(Continued from page 2)

electricians has existed in the New York area, where a 6-hour day has been standard for years until the recent 5-hour day was negotiated. It is ironical to note that the terms of the recent settlement called for an increase in the number of electrical apprentices, not so much at the request of the union as at the request of the employers. In addition, most of the unemployed appear to be older unskilled workers, to judge by a recent report of the Illinois Governor's Committee on Unemployment, and these are not easily trained to take on other, more skilled types of work.

A final consideration is that the current status of business activity and of the nation's international position is such that its welfare seems best met by increased production rather than by more leisure. Indeed, it is only through increased production at present that sufficiently high gains in productivity can be obtained to make possible shorter workweeks in the future.

All things considered, it would seem better to allow the workweek to decline gradually over time and as conditions permit. A pattern of individual settlements in local areas would seem desirable, with workers being given the choice of less hours at the same pay or the same hours for more pay. This would also give sociologists a chance to wrestle with other weighty aspects of the reduced workweek, such as how women will put up with having their husbands around the house three days a week!

RF

Recent Economic Changes

(Continued from page 5)

Offerings of Securities Equal Record

New securities offered by corporations in 1961 increased 26.5 percent over 1960 to \$12.9 billion, equaling the record set in 1957.

This advance was due to a rise in new offerings of common stock, which rose to \$3.3 billion, double the 1960 figure. Primarily responsible were large offerings of manufacturing corporations and of communications firms. Railroad financing was at a 19-year low, down 27 percent from 1960. The largest decrease in 1961, however, was recorded by sales and consumer finance companies, their new security issues showing almost a 50 percent decline to \$808 million.

Of the funds obtained from the sale of these securities, \$7.4 billion was used for new plant and equipment, \$3.3 billion for working capital, \$1.1 billion for repaying debts, and \$900 million for refunding purposes.

Autos Help Lift Economic Activity

During the fourth quarter of 1961 automobile sales soared to 1,710,000, the best quarterly performance since the second quarter of 1955. For the year as a whole auto sales totaled about 5.85 million, including 385,000 imports. In the past year imports accounted for only 6 percent of the total, as compared with 7 percent recorded in 1960.

The banner year for sales was 1955, when 7.2 million were sold. Since then sales have remained near 6 million units a year with the exception of 1958, when they dropped to 4.7 million. Car sales during 1962 are anticipated to reach between 6.5 and 7 million units, according to industry experts.

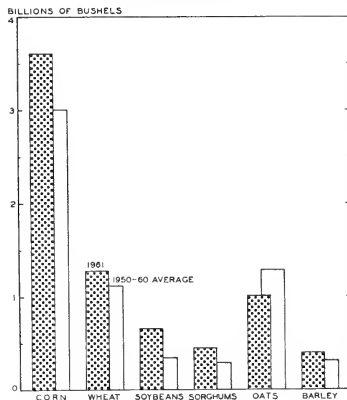
1961 Good Crop Year

In 1961, crop production came within 2 percent of the 1960 record, according to the United States Department of Agriculture. The slight downturn was caused by the smallest planted acreage in 50 years and the second smallest harvested acreage ever reported.

Farmers planted 310 million acres during the year, about 5 percent less than in 1960. The final harvest of 296 million acres was just 1 million over the record low recorded in 1954. However, record yields per acre enabled total production to rival that of 1960. Even with heavy rains in the South, drought conditions followed by high temperatures in the West and Northern Plains, hurricanes along the Gulf Coast, and finally November rains and snow in the Midwest, yields for corn, grain sorghum, soybeans, popcorn, dry beans, and hay were at record highs.

As shown in the accompanying chart, production of all the major crops in 1961, with the exception of oats, exceeded 1950-60 average production. The biggest gain was recorded by corn, up 16 percent over the 11-year average. However, compared with 1960, the combined tonnage of the "big four" feed grain crops — corn, grain sorghum, barley, and oats — was down 10 percent.

CROP PRODUCTION



Source: U.S. Department of Agriculture.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

The Married Grow Older

The average age of married men was 44.6 years in March, 1961, according to the Bureau of the Census. They averaged about 3.5 years older than their wives. The average age of both husbands and wives was two years over their 1950 averages. During this same period the average age of single persons has dropped about two years to 19.3 years. The explanation of these changes lies in the changing age composition of the population. The lower birth rates during the 1930's have caused the proportion of married persons over 35 to be larger in 1960 than in 1950. Also the high birth rates of the 1940's have resulted in an increase in the proportion of single persons in the lower age brackets.

During the same period there has been an increase in the average age differential of widowers over widows. Widowers average 72 years, whereas widows average only 67.4 years. This compares with 1950 figures of 68.5 and 65.8, respectively. The main reason for this increase has been the larger proportion of widowers in their fifties and sixties who have remarried, thus leaving in the widowed category a larger proportion of older men.

Construction Maintenance and Repairs Up

About \$19.6 billion was spent on maintenance and repairs of all types of structures and facilities in 1960, a 2 percent increase over the preceding year. Most categories registered slight advances over 1959.

During the past decade yearly maintenance and repair totals have grown from \$12.1 billion in 1950 to the present total of \$19.6 billion. The group which showed the biggest percentage advance was nonresidential buildings, for which expenditures rose 90 percent to \$4.3 billion in 1960 (see chart). The two next biggest increases were registered by highway expenditures, which rose 82 percent to

\$2.5 billion, and residential buildings, which rose 56 percent to \$7.2 billion. During this same period, public utilities showed only a 2 percent growth in expenditures for maintenance and repairs to \$2.2 billion. The biggest decrease came from the railroads which cut their expenditures 8 percent to \$1.2 billion.

Total Farm Sales Reported

About 39 percent of all United States farms accounted for more than 87 percent of the value of all farm products sold last year, according to the Bureau of the Census.

The total value of all farm products sold was \$30.6 billion, of which \$29.5 billion was reported by the 2.4 million commercial farms in operation. The average value of all products sold by commercial farms was \$12,195. For the other 1.2 million noncommercial (part time, part retirement, abnormal) farms, it was \$900. Commercial farms with sales of \$10,000 or more numbered 795,000 and averaged \$27,661 in sales per farm.

1962 Census of Governments Starts

The Bureau of the Census has started its 1962 Census of Governments. This census, as specified by federal law, covers taxes and tax valuations, governmental receipts, expenditures, indebtedness, and other aspects of state and local governments. It is conducted every five years.

In its first phase, the census will delve into such matters as assessment ratios, assessed valuations, and special property taxes. Then, in the early fall of the year, the Census Bureau will gather employment and payroll figures of each type of government. The final portion of the census will provide information on sources of taxes and other revenues and on types of expenditures, indebtedness, and other financial operations.

Family Income

The average money income of America's 45.5 million families was \$5,600 in 1960. This represents a 4 percent increase over the 1959 average, but if price rises are taken into account the real gain is estimated at only 2 percent.

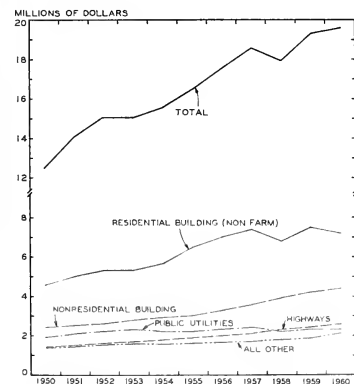
Considerable variation in average income is apparent among families with different economic and social characteristics. Thus, the average income of the 6 million families headed by persons 65 years and over was only \$2,900. During the postwar period there has been a noticeable increase in incomes. Since 1947 the average family income in current dollars has risen from \$3,000 to \$5,600, primarily because of a gain in the number of working women, which rose 17 percent.

Raised Population Projections

The Bureau of the Census has revised its population projections for the year 1965 and 1970. Assuming that current fertility rates are maintained, the projected population of the United States for 1965 is 196,217,000 and for 1970 is 214,222,000. However, if the fertility rate declines, as anticipated by the Census Bureau, the totals would be 194,454,000 and 208,931,000 respectively.

Both sets of projections are higher than those made previously. These projections also depend on certain basic assumptions such as no major war, epidemic, economic depression, or other catastrophe occurring.

MAINTENANCE AND REPAIR EXPENDITURES



Source: U.S. Bureau of the Census.

LOCAL ILLINOIS DEVELOPMENTS

Highway Improvement Program for 1962

The cost of projects to be undertaken in 1962 for the improvement of the state highway system will be approximately \$269.5 million. Of the total, \$181.3 million will be available for use on interstate highways and \$88.2 million on non-interstate highways. Right-of-way costs are expected to total about one-fifth of the program.

The 1962 program provides for continued construction of interstate highways as federal funds permit. Of the total of \$183.3 million of federal funds available, \$150.1 million will be spent on interstate highways. Carried over into 1962 are some projects from 1961, since the final quarterly allotment of federal funds did not become effective until after December 1, thus preventing bid lettings in November and December.

As contrasted with interstate construction, the work on non-interstate highways will consist principally of modernizing the existing highway system, such as providing the necessary connections to interstate highways now being built, marking pavement edge lines, erecting guard-rails, seal coating, and erecting traffic control devices.

Characteristics of the Unemployed

Who are the unemployed in Illinois? Preliminary findings of a Department of Labor state-wide survey of unemployed job-seekers conducted jointly with Governor Kerner's Committee on Unemployment show that as of last summer slightly more than 83 percent of the unemployed in Illinois had finished the eighth grade in school. Only 32 percent had gone as far as the twelfth grade, and only 1.5 percent had completed the equivalent of a college education. Willingness to take new or refresher training was expressed by 71 percent of the jobless.

In the Chicago area 66 percent of the jobless were in unskilled, semiskilled, and service occupations for which the demand is limited; less than 4 percent were in professional or managerial fields, and of these many were over

45; 40 percent were Negroes of whom only about 6 percent were skilled; and 21 percent of the Negroes had been out of work for over 10 months as compared with 15 percent of the whites.

This survey covered more than 143,000 men and women; 88,000 were from the Chicago area. It will be used as a basis for recommending training programs to be established by the State under the Area Redevelopment Act and the proposed Federal Manpower Development and Training Act which is now being considered by Congress.

Conservation Program in Illinois

Illinois has received \$8.8 million for the 1962 Agriculture Conservation Program (ACP) and \$7.4 million for the Conservation Reserve Program (CRP). Last year the State received \$8.9 million for the ACP and \$7.5 million for the CRP, according to the State Agricultural Stabilization and Conservation Office.

The ACP is for actual physical improvements to the farmer's land, with the federal government paying from 40 to 70 percent and the farmer paying the remainder. The top counties in ACP money allotment are McLean, Livingston, and La Salle.

This year three new ACP practices have been chosen for the State — planting of wildlife cover, flooding lowlands, and constructing fish ponds. Other ACP practices in Illinois include run-off diversion, contour strip cropping, construction of sod waterways, terrace building, and pasture or meadow development. In 1961 almost 50,000 farmers participated in the ACP.

The conservation program applies to farmers who signed 5- and 10-year agreements while the soil bank was in operation from 1956 to 1960. Saline, Johnson, and Wayne counties head the conservation reserve list. About 6,000 farmers are participating in the CRP.

Petroleum Production Steady

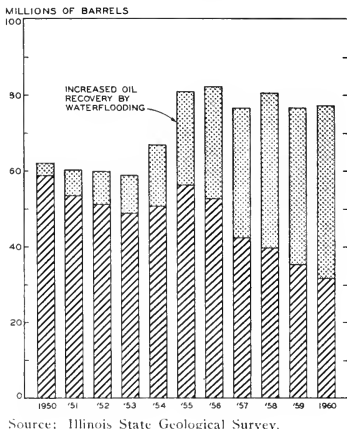
Illinois continued to rank eighth in crude oil production in the United States in 1960, producing 77 million barrels of oil or 3 percent of the nation's total. This was an increase of 614,000 barrels over 1959 production, according to a recent report of the Illinois State Geological Survey.

A peak of 147.6 million barrels was produced in 1940, shortly after the 1936 discovery of oil in the Illinois Basin. Production then declined gradually, reaching a low of 59 million barrels in 1953. In 1954 the decline was reversed, partly because of increased use of secondary recovery by waterflooding and partly because of fracture-treatment completion practices.

Even though no large new pools have been discovered in Illinois in recent years and primary drilling activity has declined, a relatively steady level of production has been maintained by the continued expansion of waterflooding. In 1960 this type of recovery reached a new annual high of 48 million barrels, rising 12 percent over 1959 waterflood production and accounting for 63 percent of the state's total production (see chart).

In 1960, exploratory drilling took place in 60 of the 102 Illinois counties, and producing wells were completed in 40 of them. The five leading crude oil producing counties that year were Fayette with 13.1 million barrels, Marion with 8.8 million, Lawrence with 7.9 million, Wayne with 6.4 million, and White with 4.3 million. These counties accounted for 57 percent of the state's total production.

PETROLEUM PRODUCTION



COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1961

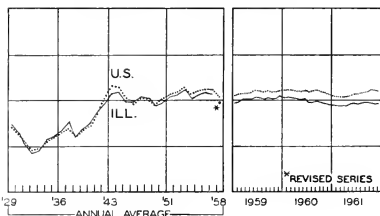
	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS	\$26,736 ^a	1,358,919 ^a	\$590,630		\$22,344 ^a	\$23,187 ^a
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-8.3 -58.9	+5.3 +6.9	+5.8 +1.2	+46 -2	+1.4 +6.1	+21.1 +6.9
NORTHERN ILLINOIS						
Chicago	\$22,456	992,963	\$423,363		\$20,767	\$20,347
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	+3.1 -62.8	+4.9 +6.3	+6.3 +2.6	+45 -2	+4.7 +6.5	+25.6 +7.6
Aurora	\$ 163	n.a.	\$ 9,224		\$ 83	\$ 187
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-71.8 -42.4	n.a.	+6.7 -3.7	+46 -4	+0.8 -5.0	+8.6 +6.2
Elgin	\$ 305	n.a.	\$ 6,366		\$ 54	\$ 158
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-57.6 +108.9	n.a.	+0.9 +0.8	n.a.	-6.1 -7.0	-23.9 -18.8
Joliet	\$ 117	n.a.	\$11,830		\$ 96	\$ 147
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-88.2 -38.4	n.a.	+7.8 +12.2	+56 +2	+0.6 +1.8	+21.7 +1.7
Kankakee	\$ 42	n.a.	\$ 6,865		n.a.	\$ 81
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-65.9 +2.4	n.a.	+25.5 +37.8	n.a.	n.a.	+3.0 +1.6
Rock Island-Moline	\$ 728	31,234	\$11,873		\$ 127 ^b	\$ 231
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-30.6 -40.4	+17.6 +9.4	+7.4 +9.2	n.a.	+1.6 -5.2	+35.2 +4.3
Rockford	\$ 612	56,988 ^c	\$20,955		\$ 218	\$ 305
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-38.4 +131.8	-2.5 +6.6	+8.7 +13.9	+68 ^e -7 ^c	+5.6 -0.3	+16.7 -1.0
CENTRAL ILLINOIS						
Bloomington	\$ 81	13,389	\$ 6,686		\$ 86	\$ 124
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-78.3 -58.5	+11.3 +14.8	+6.9 +13.3	n.a.	-0.9 +12.4	-16.1 -4.9
Champaign-Urbana	\$ 174	17,453	\$10,504		\$ 90	\$ 162
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-26.0 -56.9	+5.5 +7.9	-1.2 +11.1	n.a.	-3.7 +8.2	+9.8 +6.0
Danville	\$ 81	17,849	\$ 6,744		\$ 53	\$ 86
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-17.3 -72.4	+3.9 +19.6	+5.6 +3.7	+60 ^e +13 ^e	-4.1 -0.9	+7.7 -12.8
Decatur	\$ 72	37,109	\$12,048		\$ 127	\$ 142
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-43.7 -82.2	+7.2 +1.7	-1.3 +0.8	+59 -7	-0.9 +3.5	+3.1 -2.8
Galesburg	\$ 10	10,160	\$ 4,815		n.a.	\$ 60
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-91.8 -87.2	+6.8 +4.0	-3.9 +8.9	n.a.	n.a.	+43.8 +15.1
Peoria	\$ 587	64,917 ^c	\$18,823		\$ 264	\$ 407
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-51.0 +5.4	+12.9 +12.6	+6.7 +13.0	+53 0	+0.8 +12.2	+11.4 -7.3
Quincy	\$ 146	14,024	\$ 5,913		\$ 59	\$ 93
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-30.1 +23.7	+5.2 +5.2	-2.4 +7.4	n.a.	-1.3 +13.5	+7.5 +3.3
Springfield	\$ 706	48,613 ^c	\$15,157		\$ 137	\$ 381
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	+5.4 +164.4	+9.8 +12.4	+1.7 +8.1	+51 ^e -5 ^c	-0.8 +1.5	+36.9 +16.7
SOUTHERN ILLINOIS						
East St. Louis	\$ 153	17,388	\$ 8,952		\$ 139	\$ 152
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	-32.6 +61.1	+3.0 -3.4	-0.2 -0.8	n.a.	-0.6 -11.3	+81.3 +53.6
Alton	\$ 184	23,663	\$ 5,355		\$ 45	\$ 52
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	+5.7 +201.6	+1.2 +9.7	+0.4 +3.7	n.a.	-4.8 -4.1	+12.3 -0.9
Belleville	\$ 119	13,169	\$ 5,158		n.a.	\$ 73
Percentage change from.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....	{ Nov., 1961..... Dec., 1960.....
	+33.7 -30.0	+14.1 +5.6	+0.1 +6.8	n.a.	n.a.	+30.7 -0.9

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for October, 1961. Comparisons relate to September, 1961, and October, 1960. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending December 8, 1961, and December 9, 1960.

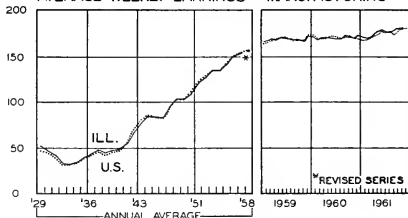
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

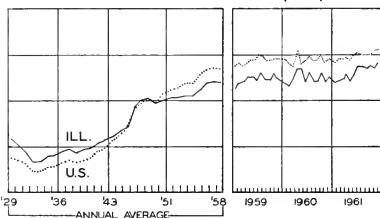
EMPLOYMENT MANUFACTURING



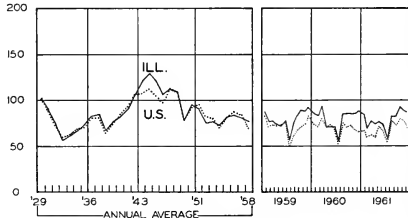
AVERAGE WEEKLY EARNINGS—MANUFACTURING



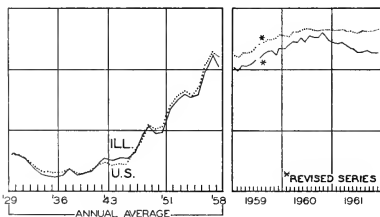
DEPARTMENT STORE SALES (ADJ.)



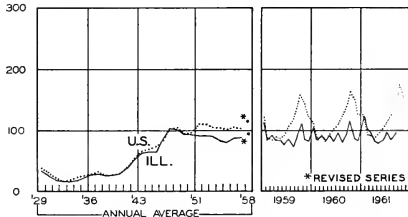
COAL PRODUCTION



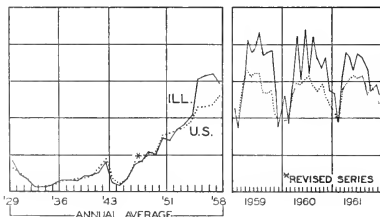
BUSINESS LOANS



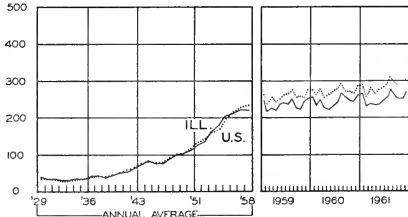
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

APR 9 1962



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 19

MARCH, 1962

NUMBER 3

HIGHLIGHTS OF BUSINESS IN FEBRUARY

Business resumed its upward course in February after some setbacks in January. Steel production averaged more than 2.4 million tons a week, up about 4 percent from the previous month. The automobile industry turned out about 536,000 passenger cars, down 15 percent from January (primarily because of fewer workdays) but 47 percent above February, 1961. Advances were recorded for most weekly production series. The seasonally adjusted index of industrial production rose 1 point to 115 percent of the 1957 average.

Retail sales increased \$200 million to \$18.9 billion, after seasonal adjustment. Dealers sold 455,300 new American-made cars, a slightly higher daily rate than in January. Personal income more than recovered the January loss, adding \$2.7 billion for a seasonally adjusted annual rate of roughly \$433 billion.

Employment Advances

Employment showed better than seasonal gains in February, rising 731,000 to a record February total of 65.8 million. The normal increase expected in this period is about 130,000.

At the same time unemployment declined 120,000 to 4.5 million, contrary to the normal seasonal pattern of a small increase between mid-January and mid-February. The seasonally adjusted rate of unemployment fell from 5.8 percent to 5.6 percent, the lowest in 19 months.

The reduction in unemployment in recent months is somewhat clouded by the decline of 28,000 in the labor force during the last year, whereas it was expected to increase 848,000. This discrepancy may reflect the withdrawal from the labor force of many persons who were unable to find jobs. Other possible explanations are a decline in labor market participation by younger people, earlier retirement by some men as a result of reduction in the minimum retirement age under Social Security to 62, and reluctance of workers displaced from farm jobs to seek employment in industry.

Construction Declines Seasonally

The value of all new construction put in place during February amounted to \$3.9 billion, 6 percent less than the January figure. The decline was about equal to the normal seasonal change expected between January and February and left the total for the month 5 percent above February, 1961.

A somewhat more than normal seasonal decline carried new private construction spending down to \$2.8 billion, 6 percent below the January figure. The largest element in this decline was reduced spending for construction of private nonfarm residential buildings, which fell 9 percent from January to \$1.5 billion. The normal seasonal change between January and February is about 6 percent. Public construction expenditures were down slightly less than is normal for this period to \$1.1 billion, 7 percent below the January estimate.

Inventories Increase

An increase of \$550 million, after seasonal adjustment, in the book value of inventories held by manufacturing and trade firms was reported for January, compared with an increase of \$420 million in December, 1961. Most of the rise was at the manufacturing level, especially in the durable goods industries, but small additions were also made by wholesalers and retailers. The total at the end of the month amounted to \$96.1 billion, \$2.3 billion more than the year-earlier figure.

Total sales of manufacturing and trade firms, seasonally adjusted, dropped slightly in January for the second month in a row. A decrease of \$570 million in manufacturers' sales more than offset a \$400 million advance by wholesalers and a small increase by retailers, reducing the total by less than \$100 million to \$63.9 billion.

Capital Outlays to Rise

The January-February survey of projected expenditures on new plant and equipment by business firms indicates that they plan to spend a record \$37.2 billion in 1962. This would represent an increase of 8 percent from 1961 and would exceed the 1957 record of \$37 billion.

Actual expenditures on new plant and equipment in 1961 amounted to \$34.4 billion, down 4 percent from 1960. The 1961 total was somewhat lower than estimated in the October-November survey because fourth-quarter spending amounted to an annual rate of \$35.4 billion instead of the projected \$35.9 billion. The new report also reduced the estimate for the first quarter of 1962 from an annual rate of \$36.5 billion to \$36.1 billion. The latest projection estimates second-quarter expenditures at an annual rate of \$36.6 billion and implies an average rate of \$38 billion for the final two quarters.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Dollars and Security

The federal budget for fiscal 1963 is estimated at \$92.5 billion. This figure represents a new peacetime high, well above the estimated \$89 billion to be spent in the fiscal year ending June 30, 1962. Moreover, cash outlays of the federal government, which include outlays of government trust funds and government-sponsored enterprises (such as Social Security), are also likely to rise greatly, to a new record of \$115 billion.

If anything, the present budget estimates may turn out to be low, since they are predicated on the continuation of prosperity conditions and on the absence of any serious rise in international tensions. Should business activity turn downward, additional expenditures may be required for pump-priming purposes. Similarly, any outbreak of fighting on the international scene would bring about a sharp increase in government expenditures.

More and More

The continuing increases in the size of the federal budget during the postwar years has staggered the imagination of many people. As noted in the special article in this issue, the fiscal 1963 budget is more than ten times the size of the last peacetime budget before World War II, and is twice the size of the peacetime budget just preceding the Korean conflict. Surely, many people believe, much of this budget can hardly be necessary and represents in large measure government for its own sake.

To some extent, this may be true. Large operations, whether they be business or government, invariably contain a certain amount of fat which might be eliminated with no sacrifice of efficiency. More basically, however, this does not answer the question. Elimination of waste in federal expenditures is hardly likely to reduce the total appreciably and is certainly not likely to reverse the upward trend in government expenditures.

The real cause lies in a much more basic phenomenon. This is the growing desire of the American people for greater security. Originally, this desire was reflected primarily in the need for military security, to protect the country's political system. Such protection clearly can only be provided by a central government.

In recent years, the increasing dangers from abroad and the tremendous increases in military expenditures have accounted for much the largest share of increase in

government expenditures. For example, in the fiscal 1963 budget, expenditures for national defense, international affairs, and related activities amount to over \$58 billion. An additional \$15 billion represents expenditures resulting from past security efforts, such as veterans benefits and interest on the national debt. The combined total represents more than 80 percent of the regular government budget.

Filling the Void

Military safety is not the only type of security that Americans want. In recent years, attention has been focused on the desire for economic security. The American people want protection not only against invasion of their political freedom but also against the danger of invasion of economic poverty from the cradle to the grave. They want medical benefits, protection against income loss, and against many other contingencies. Furthermore, they are seeking an ever-higher standard of living not only in terms of purchasing power but also in terms of culture and manner of living—educational opportunities, recreational facilities, even theaters in which to develop new Barrymores.

All of this takes money. Welfare expenditures, schools, and conservation are areas which only government can look after. Contrary to military security, however, such activities also fall within the province of state and local governments. Indeed, theoretically, these activities could be left to the state and local governments, with the federal government doing little except perhaps to help consolidate local activities.

No doubt, this was the principle on which this country was founded. In practice, however, it has not worked out. Particularly in recent years, state and local governments have found it increasingly difficult to obtain the support and funds for meeting the educational and welfare needs of a rapidly growing population. Political institutions at these levels do not seem to possess the flexibility for enabling these governments to expand their operations in proportion to the growth of their populations or the increasing demands for more and better services. The problem is particularly acute in such wealthy states as Illinois and Michigan, where antiquated government institutions are unable to meet the needs of an affluent population.

As a result, this task has largely fallen into the hands of the federal government. Possessing greater flexibility than local governments, and being run perhaps by people with greater vision, the federal government is more willing and able to meet the demands of the people for greater economic security, particularly in the areas of education and welfare. It is rather ironical to note that the people who are the most vociferous in their protests against bigger and bigger federal budgets are also most vociferous in their protests against increased local spending, the effect of which is to promote the expanding activities of the federal government.

In terms of dollars, the full effects of this trend on federal government expenditures have not yet been felt. Federal expenditures for education, health, housing, and natural resources have risen relatively little so far. Yet, with state and local governments being hamstrung by antiquated revenue ordinances, and with the people demanding increasing amounts of educational and welfare services, the federal government has to intercede as a matter of political necessity, and government expenditures are bound to increase substantially in these areas over the next few years.

RF

COMMERCIAL LAUNDRIES

Commercial laundering, although one of the oldest of personal services, has become the servant of the common people only in the past century. In the thousands of years before that time, laundering for pay was done chiefly for the wealthy. Typically, launderers contracted for the wash of several wealthy families over a long term, such as a year.

The gradual emergence of the modern laundry industry did not occur until a combination of factors made the service both practical and economical for the average family. Among these factors were the increasing availability of cotton materials and clothing, the growth of urban areas where washing the family clothing became more difficult, the gradual introduction of machinery and more efficient cleansing agents, and higher incomes.

The first power laundry in this country was established in 1851 by a gold prospector in California who had become disgruntled by the long wait for his Hawaiian-laundered shirts. During the ensuing half-century, the industry grew little by little as various new machines appeared, such as the rotating washer (1863), the roller ironer (1875), and the steam press (1900). Commercial laundries were not widely patronized, however, until 1917. Before then, laundries tended to specialize in the processing of men's shirts and detachable collars, as well as washables from ships and hotels. The stimulus came during World War I as working wives and mothers gave laundries a larger share of the family wash. After the war, more laundries sprang up to satisfy this newly created habit, one which together with a concurrently expanding need for laundered items by other industries has made the American laundry industry the largest in the world today.

The Business Today

Commercial laundering has undergone its greatest growth since World War II. In 1946, sales amounted to \$740 million, or less than double the 1925 figures. By 1960 receipts reached a record high of \$2.2 billion. The growth of the industry is further shown by the fact that laundry sales rank second among the nation's service industries.

No longer a "shirt and collar" business, the industry consists of at least six different types of laundries, each offering specific types of service. Family (or general) laundries, which cater to both domestic and commercial markets, are the most numerous, accounting for about two-fifths of the 26,000 establishments and about half of total revenues. The 750 linen suppliers and 1,600 industrial launderers, in contrast to the general laundries, which offer a full range of services, specialize in the rental of such items as clean towels, wiping cloths, and uniforms. Linen supply houses are the larger of these two types, accounting for one-fourth of industry sales, or twice that of the industrial laundries. The remaining 12 percent of sales is shared by self-service laundries, diaper services, and hand laundries.

The typical laundry is small; 90 percent of the plants have fewer than 20 employees and 94 percent are single-unit establishments. In general, the small proportion of large establishments is made up primarily of general laundries, linen suppliers, and industrial laundries.

Trends and Problems

The typical laundry owner is in a curious situation. He is faced not only with a growing number of competing laundries, but also with competition from his customers, such as housewives or large institutions, who if necessary can always turn to their own washing facilities. For this reason, slim price markups are common to the industry. As a rule, narrow profit margins are maximized more often by greater efficiency of labor than by the addition of machinery, a circumstance resulting from the fact that labor remains a major cost item because of the numerous hand operations still required.

One of the industry's most significant trends during the postwar era has been the dynamic growth of neighborhood self-service laundries, or laundrettes. Nearly nonexistent in 1945, these establishments today number more than 10,000 and have an estimated annual revenue of \$120 million. Most of the earlier laundrettes were started by inexperienced persons. Today, this new field is being paced by professional laundrymen, who currently own about two-thirds of the self-service facilities.

Laundries in Illinois

Illinois is one of the leading states in the industry. In 1960, the 1,800 laundries in the State posted estimated sales of \$150 million, an amount surpassed only in New York and California. During the same year, about 22,000 workers were employed here.

The postwar growth of laundrettes has brought commercial laundry service to many smaller Illinois communities. However, the industry remains concentrated in the larger urban centers, particularly in the Chicago metropolitan district, which contains about 70 percent of the state's 1,800 laundries and receives about 80 percent of total Illinois laundry income. The state's seven other metropolitan areas together account for about 12 percent of sales.

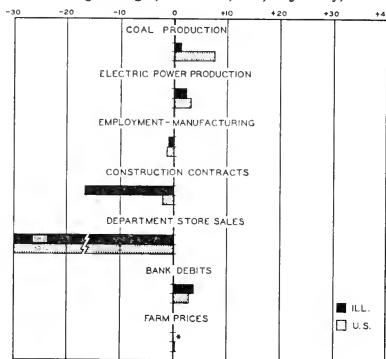
Illinois is the headquarters for the American Institute of Laundering, a unique organization serving more than 5,000 member laundries in the United States and Canada. The AIL, located at Joliet, receives fabrics and garments from commercial laundries throughout the nation for testing of washability and wearability. Impartial findings are reported for the benefit of laundries, manufacturers, customers, and Better Business Bureaus. In its 40 years of scientific research, the AIL has contributed significantly not only to the progress of the laundry industry, but has also given the public greater knowledge of the life expectancy, serviceability, and launderability of all washables.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, December, 1961, to January, 1962



*Not seasonally adjusted.

* No change.

ILLINOIS BUSINESS INDEXES

Item	Jan. 1962 (1947-49 = 100)	Percentage change from	
		Dec. 1961	Jan. 1961
Electric power ¹	275.7	+ 2.3	+ 4.0
Coal production ²	88.1	+ 1.2	+ 5.0
Employment—manufacturing ³	98.4	- 0.9	+ 2.5
Weekly earnings—manufacturing ³	182.2 ^a	+ 0.7	+ 5.4
Dept. store sales in Chicago ⁴	113.0 ^b	-13.1	- 5.0
Consumer prices in Chicago ⁵	103.9	+ 0.1	+ 0.5
Construction contracts ⁶	219.0	-16.5	-17.5
Bank debits ⁷	265.3	+ 3.8	+ 7.9
Farm prices ⁸	97.0	0.0	- 3.0
Life insurance sales (ordinary) ⁹	n.a.		
Petroleum production ¹⁰	123.2	- 0.9	+ 5.9

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor;

⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agency. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Data for December, 1961, compared with November, 1961, and December, 1960. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Jan. 1962	Percentage change from	
		Dec. 1961	Jan. 1961
Personal income ¹	430.3 ^a	- 0.3	+ 6.6
Manufacturing ¹	381.6 ^a	- 1.9	+10.8
Sales.....	55.7 ^{a, b}	+ 0.9	+ 3.7
New construction activity ¹			
Private residential.....	21.0	- 7.4	+20.9
Private nonresidential.....	16.1	- 7.9	- 0.1
Total public.....	13.0	-18.3	- 0.6
Foreign trade ¹			
Merchandise exports.....	21.7 ^a	+ 0.5	+ 1.1
Merchandise imports.....	15.3 ^a	- 3.1	+10.4
Excess of exports.....	6.3 ^a	+10.5	-16.0
Consumer credit outstanding ²			
Total credit.....	56.3 ^b	- 1.5	+ 2.3
Installment credit.....	42.8 ^b	- 0.7	+ 0.1
Business loans ²	36.5 ^b	- 3.9	+ 1.4
Cash farm income ³	38.3 ^a	-15.6	- 0.9
Indexes (1947-49 = 100)			
Industrial production ²			
Combined index.....	114 ^{a, d}	- 0.9	+11.8
Durable manufactures.....	109 ^{a, d}	- 0.9	+14.7
Nondurable manufactures.....	122 ^{a, d}	0.0	+ 9.9
Minerals.....	100 ^{a, d}	- 1.0	+ 0.2
Manufacturing employment ⁴	97 ^{a, e}	- 0.6	+ 3.2
Production workers.....			
Average hours worked.....	100 ^e	- 1.7	+ 2.6
Average hourly earnings.....	179 ^e	0.0	+ 3.9
Average weekly earnings.....	179 ^e	- 1.7	+ 6.6
Construction contracts ⁵	233	- 2.0	+ 7.0
Department store sales ⁵	150 ^a	- 3.8	+ 5.6
Consumer price index ¹	105 ^f	0.0	+ 0.7
Wholesale prices ¹			
All commodities.....	120	+ 0.4	- 0.2
Farm products.....	90	+ 2.2	0.0
Foods.....	110	+ 0.9	- 0.1
Other.....	128	+ 0.2	- 0.2
Farm prices ³			
Received by farmers.....	100 ^f	+ 1.0	0.0
Paid by farmers.....	104 ^f	+ 1.0	+ 1.0
Parity ratio.....	80 ^a	+ 1.3	0.0

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b End of month. ^c Data for December, 1961, compared with November, 1961, and December, 1960. ^d 1957 = 100. ^e Revised. ^f 1957-59 = 100. ^g Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1962					1961
	Feb. 24	Feb. 17	Feb. 10	Feb. 3	Jan. 27	Feb. 25
Production:						
Bituminous coal (daily avg.).....	1,333	1,372	1,362	1,373	1,371	1,103
Electric power by utilities.....	16,110	16,266	16,468	16,440	16,686	14,490
Motor vehicles (Wards).....	160	160	162	166	166	122
Petroleum (daily avg.).....	7,450	7,471	7,479	7,406	7,420	7,207
Steel.....	140	142	142	142	139	91
Freight carloadings.....	511	538	542	549	533	468
Department store sales.....	119	122	118	114	117	122
Commodity prices, wholesale:						
All commodities.....	119.3	119.4	119.5	119.5	119.6	120.0 ^a
Other than farm products and foods.....	127.5	127.6	127.8	127.8	127.8	128.1 ^a
22 commodities.....	83.4	83.4	84.2	84.7	85.1	84.4
Finance:						
Business loans.....	32,173	32,117	32,038	31,992	31,981	31,477
Failures, industrial and commercial.....	309	412	313	345	389	348

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for February, 1961.

RECENT ECONOMIC CHANGES

Agricultural Exports Set Record

New records in the value and volume of United States agricultural exports were set during fiscal 1960-61. The value of these exports rose 9 percent above 1960 and 5 percent above the prior peak of 1956-57 to \$4.9 billion. At the same time, export volume rose 7 percent over the previous record in fiscal 1959-60.

Substantial increases in wheat and cotton exports, as shown in the chart, accounted for over 90 percent of the value gain. Increases occurred also in soybeans, tobacco, hides and skins, poultry products, and meat. Major reductions in exports by value were in animal fats, cottonseed and soybean oils, and vegetables and preparations.

The amount of cash receipts derived from last year's exports totaled 15 percent of total farm marketings. Both dollar sales and shipments under government-financed export programs contributed to the rise in exports in 1960-61. Agricultural dollar exports rose 6 percent from 1959-60 to a record \$3.4 billion. Wheat, corn, soybeans, cotton, and tobacco showed the largest increases over 1959-60; sales of poultry, meat, variety meats, and hides and skins were also up.

Gold Losses Decline

The loss of gold by the United States to foreign central banks and individuals declined slightly in 1961 after reaching a post-World War II high in 1960. Since 1950 the United States has lost gold at an annual rate of \$633 million to bring the gold stock, as of January 1, 1962, to \$16.9 billion. Most of this gold has gone into foreign central banks as part of their reserves, but an increasing amount has been purchased by individuals.

This private hoarding, which had been taking about \$400 million a year of the world's gold supply in the early fifties, jumped to at least \$700 million in 1960. Specu-

tors on the London market drove the price up to \$40 an ounce in anticipation of devaluation of the United States dollar. However, the amount going into private holdings in 1961 was reduced to about \$500 million, primarily because of assurances by the United States government that the dollar would not be devalued and also to an improvement in the balance of payments.

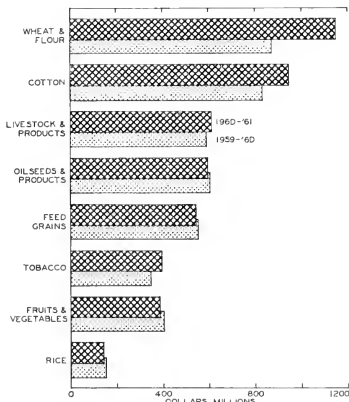
With the total gold production in the non-Communist countries valued at \$1.2 billion and gold sales by the Communist nations amounting to \$250 million, a total of \$1.45 billion in new gold became available last year on the principal world markets in London, the Middle East, and India. Of this amount it is estimated that \$750 million went into the official reserves of foreign central banks, \$350 million went for the use of industry, and \$350 million went into private hands.

Family Income Continues Upward

Median family income in the United States increased about \$200 between 1959 and 1960. From 1947 to 1960 median family income in terms of constant (1960) dollars rose 40 percent, from \$4,000 to \$5,600. During this period the number of families receiving \$3,000 or less (in constant 1960 dollars) dropped from 12.3 million to 10 million. A similar decline occurred in the \$3,000 to \$5,000 income class, where the number of families declined 23 percent to 9.1 million. In contrast, the number of families in the \$10,000 and over class increased from 2.2 million in 1947 to 6.4 million in 1960.

In 1960, families whose heads were year-round full-time workers had a median income of \$6,600. Families with heads who worked only part of the year or not at all had a median income of \$3,600. About one-third of these latter heads of families gave unemployment as the major reason for their inactivity in 1960. The median income of about 6 million families headed by persons over 65 was \$2,900, whereas the median income of unrelated individuals over 65 was only \$1,100.

AGRICULTURAL EXPORTS



Source: U.S. Department of Agriculture.

Little Change in Housing Vacancies

Following several years of continuous though gradual increase, the national rental vacancy rate fell between the second and fourth quarters of 1961 from 8.1 percent to 7.7 percent of the total, and the homeowner vacancy rate dropped from 1.4 percent to 1.2 percent. However, the average rates for 1961 were still higher for both types of vacancies than in 1960.

The rental vacancy rate in the fourth quarter was lowest in the Northeast (4.0 percent) and highest in the West (9.5 percent). For homeowner vacancies, the highest rate was 1.5 percent in the South and the lowest 0.8 percent in the Northeast.

The quality of available vacancies as measured by plumbing facilities remained about the same, with 70 percent of the rental vacancies having hot running water, private flush toilet, and bath, and 90 percent of the homeowner vacancies having similar facilities.

Retail Sales in 1961

Total 1961 sales of all retail stores in the United States amounted to \$218.9 billion, only \$600 million less

(Continued on page 8)

THE FIRST KENNEDY BUDGET

HERBERT I. SCHILLER, Research Associate Professor

President Kennedy consistently has emphasized the dynamic qualities of the times in which we live. This was the message of his TV campaigning, his inaugural address, and his innumerable public utterances since assuming the Presidency. It is not without some interest, therefore, to examine how his understanding of the demands of the age is reflected in the first "all-Kennedy" budget for the fiscal year 1963, which was submitted to Congress on January 18, 1962.

To begin with, the total size of the budget is the largest ever in peacetime. Its \$92.5 billion expenditures level is up \$3.4 billion over fiscal 1962, and it is \$11 billion higher than fiscal 1961, the last "all-Eisenhower" budget. It is more than double the \$44 billion in fiscal 1951, the budget prepared before the outbreak of the Korean War, and it is ten times the 1940, pre-World War II expenditures level of \$9.1 billion. Administration supporters are quick to point out to potential critics of the magnitude of this proposed federal spending that the *proportion* of expenditures to GNP has not been rising, and has, in fact, declined slightly in recent years. For this to continue to be true, GNP must grow more rapidly than federal spending, and this is predicted for the next fiscal year.

The budget calls for a marked increase in military outlays. National defense spending is up \$5.2 billion over 1961's level, an increase of almost 11 percent in two years, and spending on the space program has raced from \$700 million to \$2.4 billion over the same interval, an increase of 243 percent. There are also many shifts of considerable magnitude in the smaller categories on the expenditures side. Agriculture is down, housing is up, education is up, health and welfare are up, natural resources are up. These latter items are impressive in absolute terms, and in comparison with earlier bucolic periods in American history they appear to be enormous, but they are

still relatively inconsequential in the total budget (see Chart 1).

On the revenue side, a sizable increase of \$10.9 billion in federal receipts over fiscal 1962 is projected for 1963, constituting a 13 percent rise in revenues.

These are the ingredients of the recipe. What is the character of the preparation? Some have noted a filmy quality surrounding this budget, despite the very real nature of the almost \$93 billion of contemplated expenditures.

Economic Assumptions

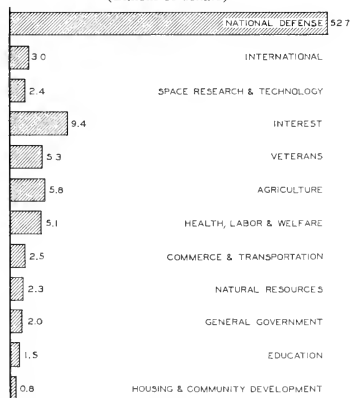
There is some uneasiness over the character of the economic assumptions in the budget's formulation. Gross national product is projected from its estimated 1961 (calendar year) level of \$521 billion to a \$570 billion level in 1962, and no pause in rising economic activity is foreseen before the summer or late fall of 1963, by which time GNP is supposed to reach an annual rate of \$600 billion. It is further expected that unemployment will recede from its current 4.5 million level to 3 million; and the rate of unemployed in the labor force, which hovered between 6 and 7 percent for 16 months before dropping to 5.8 percent in January, 1962, and to 5.6 percent in February, will recede to an "acceptable" 4 percent by mid-1963. It is on the basis of this expected strong showing in the economy that the budget-makers anticipate governmental receipts of \$93.7 billion in fiscal 1963. This estimate is predicated on increases in the individual income tax of \$4.3 billion and in the corporate profits tax of \$5.3 billion. This, in turn, is the source of the balanced budget which is calculated to follow an estimated \$7 billion deficit in fiscal 1962.

Does the current situation warrant this confidence? Certainly the present recovery is no roaring avalanche. President Kennedy's State of the Union Message to Congress on January 12, 1962, reflects, perhaps, the mood of the budgeters: "At home we began the year in the valley of recession. We completed it on the high road of recovery and growth." Yet the unemployed rate is still 5.6 percent and this does not include 700,000 job-seekers who apparently dropped out of the labor force in 1961 (and therefore do not appear as unemployed seeking work) because work was scarce.

It fails to take into account that the one-time stimulation of the Berlin-induced increase in defense spending has been largely absorbed. Unless new increases are scheduled over and above the budget's estimates, or the rate of defense spending is further accelerated, not much more of an upward thrust can be expected from this source in the period immediately ahead, though a serious downward movement is obviously cushioned. The President's requests to Congress for special authority to order income tax reductions, authorize public works programs, and extend unemployment insurance compensation are sufficient evidence of the awareness of the possibility of future dips as well as ascents, in economic activity.

The President's requested 8 percent new investment depreciation credit is a still-to-be-tested alternate engine for energizing economic activity. Corporate capital spending is likely to continue to proceed warily, though the President's economic advisers look for a marked upswing in the second half of 1962. The last quarter of 1961 revealed that significant underutilization of capacity still

CHART 1. BUDGET EXPENDITURES
BY FUNCTION
(Billions of dollars)



Source: U.S. Bureau of the Budget.

existed throughout the economy, though economic activity was much more vigorous than it had been a year earlier. In mid-1961, a National Industrial Conference Board study characterized overcapacity as a condition likely to persist throughout much of the decade.

Unresolved Problems of the Economy

The decision to present a balanced budget was made, most agree, to allay international anxieties about the fiscal responsibility of the Administration and to provide a favorable domestic atmosphere for private capital investment. It is questionable whether either of these objectives is likely to be influenced positively by the document submitted. On the international payments situation, the budget is probably regarded, by those who make such judgments, as further evidence that the United States is economically overextended. Waging the cold war on a world front has developed strains in the largely uncontrolled domestic resource base. Many may feel that the painful task of withdrawing some of the country's commitments, or of introducing some tough domestic controls, is still being postponed by the Administration, as it was by the preceding Administration. As for convincing domestic businessmen that the Administration is not hostile and is in fact sympathetic, are not more objective forces at work determining business investment policy than a precariously balanced budget? What the effort at balancing probably indicates is that the President and his advisers are far more conventional in their financial policy than they admit. Closely related may be the corollary consideration that the economic-political problems facing the Administration, both domestically and internationally, are proving themselves to be intractable, and the President finds the institutions within which he must pursue his aims vexingly confining and increasingly frustrating.

When attention is turned to the domestic objectives of the Administration, the problem is more apparent. Though the usual opposition to such expenditures is unlikely to be convinced, the President pointedly noted that domestic civil functions, which include agriculture, natural resources, commerce and transportation, housing and community development, health, labor, and welfare, education, veterans benefits and services, and general government, "have been held virtually stable between 1962 and 1963." There were some shifts within categories but the total moved only from \$25.3 billion to \$25.4 billion. Many will consider such restraint remarkable in that in the 12 months preceding this budget, and all the while it was being prepared, there appeared: (1) hair-raising reports on the state of the nation's urban high schools (for instance, the Conant Report, *Slums and Suburbs*, and the Schinnerer Report on the inadequacy of the public school system in New York City); (2) a sobering study contrasting favorably the quality, character, and output of Soviet professional and technical manpower with their American counterparts (*Education and Professional Employment in the USSR* by Nicholas De Witt, for the National Science Foundation); and (3) a number of carefully documented works on the extent of the nation's critical needs in urban redevelopment (one study estimated that *satisfactory* urban renewal would cost "almost two trillion dollars by 1970"), growing water needs, mass transport and general transport problems.

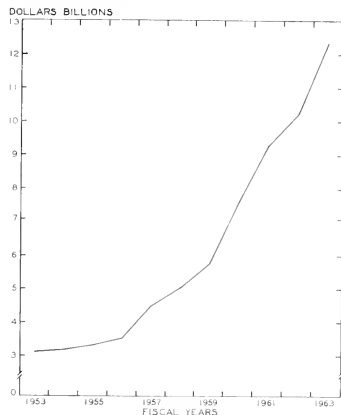
Boulding, Bator, and other economists have made careful analyses of expenditures data which show that federal government spending for welfare and civilian

purposes has *decreased* as a proportion of the gross national product in the five pre-Kennedy administrations. To date this trend has not been reversed under the present Administration. Though the needs patently have become more urgent with the passing years, there is no *significant* move in the direction of such spending. In the fiscal 1961 Eisenhower budget, federal spending on education accounted for 1.1 percent of the total expenditures. In the 1963 document, it will account for 1.6 percent if Congress passes the modest aid-to-education measures proposed by the President.

Expansion of Research and Development

These relationships give a special significance to another item in the budget, research and development. Expenditures on R&D are not combined in one category but are spread throughout the budget, appearing in allocations to the Atomic Energy Commission, the National Space Agency, the Department of Defense, the National Health Institute, the National Science Foundation, and other organizations. In the new budget R&D expenditures will reach \$12.4 billion, compared with \$10.2 billion this year (see Chart 2). The growth in research and development has been nothing short of breathtaking. In 1945 *total* R&D expenditures from industry, government, and colleges and institutions amounted to \$1.8 billion, the federal government's share being a modest \$800 million. Going back to pre-World War II days, in 1936, the United States government spent less than \$40 million in support of science and technology. There was no National Science Foundation and no Atomic Energy Commission. Increasing steadily throughout the postwar period, R&D expenditures have jumped spectacularly in the last few years. As recently as 1955, the federal government spent only \$3.5 billion in this area. In a little more than seven years the increase has exceeded 250 percent, starting from a not inconsiderable base.

CHART 2. FEDERAL EXPENDITURES FOR RESEARCH AND DEVELOPMENT



Source: *Science*, January 26, 1962, p. 300.

Curiously enough, the spending of this huge sum produces many of the critical problems alluded to above. Though well over half of the spending goes into weapons systems and analysis (the total Defense Department R&D budget will be \$7.1 billion, which includes its space program), a very substantial portion finds its way into basic research, product development, and new equipment, all of which are revolutionizing life in the United States. The displacement of the industrial labor force by machines, the incredible rise in agricultural productivity which is creating surpluses of foodstuffs and farmers, and the new communications and transport systems which are turning the country into a vast interurbia with massive traffic and air pollution problems are offspring, sometimes unacknowledged, of this "research revolution."

The government, through its expenditures on science and research, is promoting the rapid transformation of society. This is being accompanied by needs unimagined in a less turbulent era. One of many possible illustrations is the rising requirements for technical manpower. The President, just prior to his budget message, expressed his concern with "one of the most critical problems facing this nation . . . the inadequacy of the supply of scientific and technical manpower to satisfy the expanding requirements of this country's research and development efforts in the near future." He pointed out that there had been declines in the last decade in the number of graduates in the physical sciences, the biological sciences, and engineering. The new budget gives surprisingly little reason to hope that these lags will be overcome.

Out of Aladdin's Lamp of technological research, the genie automation has arisen. Two items are included in the new budget to take care of his awesome needs. There is a proposed expenditure of \$60 million for manpower development and training and there is another \$60 million request for youth employment opportunities. The almost invisible slice of the \$93 billion budget that these proposed expenditures represent is the best reflection of the enormous gap that separates the rapidly expanding requirements of this changing age and the modest measures proposed to meet these needs.

The Military Component

There is, it would seem, one area in the national budget wherein proposed expenditures are not desperately short of realistically estimated requirements. This is the national security component.

The present government presumably views the perils facing the American society from abroad in much the same way as predecessor administrations. In its allocation of the resources available to sustain and strengthen the national economy, the preponderant proportion continues to be channeled into the military sector. "More than three-quarters of the increase [over 1962's budget] is accounted for by national security and space activities," and "about four fifths of the \$92.5 billion of budget expenditures estimated for 1963 represent costs associated with our current national security and with past wars." In determining priorities for national programs, all of which may be considered to possess some urgency, the military claim is apparently heeded first, often at the expense of other claimants. Because "of the increasing requirements for national security," the President noted, "many desirable new projects and activities are being deferred."

Though no one expects the military to reduce its role voluntarily, the President has repeatedly affirmed his

view that schools are on a parity with missiles in the maintenance of the society's over-all vigor and defense. This introduces some perplexing questions so far as the Administration's budget recommendations are concerned. It is the consensus of recent national polls that President Kennedy is an extremely popular leader, perhaps the most widely admired since Franklin D. Roosevelt. Can the Administration's concern with reining in expenditures in the domestic civil function categories be interpreted as other than a denial of its leadership position and an unexpected retreat from its own perspectives initially presented to the American people?

More worrisome, the meager preparations for the changes being speeded by the unchained forces of technology, amply assisted by this (and the preceding) Administration, may reduce the nation's ability to face the awesome challenges that lie ahead.

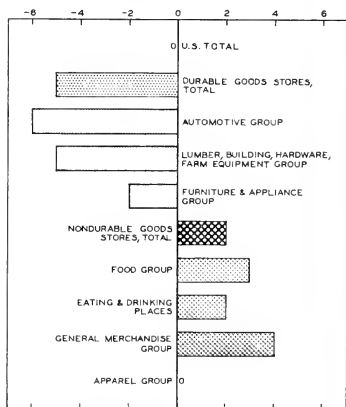
Recent Economic Changes

(Continued from page 5)

than in 1960. As shown in the accompanying chart, sales of nondurable goods stores increased 2 percent over 1960, whereas sales of durable goods stores were 5 percent below 1960.

Among the various kinds of retail businesses, the general merchandise group recorded the largest percentage increase over the 1960 level, rising 4 percent. The food group and eating and drinking places showed advances over 1960 of 3 and 2 percent respectively. Within the food group, grocery stores showed the largest increase with a gain of 3 percent whereas meat markets had the biggest decline with a loss of 5 percent in sales. Among the eating and drinking establishments only restaurants, cafeterias, and lunchrooms showed a gain over the previous year.

PERCENTAGE CHANGES IN RETAIL SALES
1960 TO 1961



Source: U.S. Bureau of the Census.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Nonfood Buying in Grocery Stores Rises

Modern supermarkets and consumer buying habits are expanding the definition of groceries. In recent years, nonfood sales in groceries have increased steadily and are continuing to account for a larger share of total grocery store sales.

Food sales in grocery stores have declined from 88 percent of total sales in 1947 to 80 percent in 1959. During this same period, beer, wine, and liquor sales jumped from 2 percent of the total to 5 percent, and other nonfood purchases increased from 10 percent to 15 percent.

These long-term trends have recently been mirrored in a United States Department of Agriculture study conducted in Indianapolis. It was found that about 18 percent of the total spent in grocery stores went for nonfood items of all types. Of the average dozen items per shopping basket, two were nonfood. About 60 percent of the shoppers observed had at least one nonfood item and 6 percent had only nonfood items.

The study also showed that in general nonfood buying tended to be somewhat higher in suburban stores than in stores located in city centers, residential areas, or in small towns. However, small-town stores sold a higher proportion of nonfood items exclusive of alcoholic beverages than stores located in the other areas.

Trends in FHA Mortgage Market Prices

During the post-World War II period FHA mortgage market prices have varied according to the region of the country. The Northeast and Middle Atlantic regions have had the highest regional averages of secondary market prices for FHA 25-year home mortgages. Among the other four regions, the North Central area has had the lowest average.

The differences between regional averages of secondary market prices have varied from about one point to as much as three points during the postwar period, depending on the credit demands of the economic area. The spread between regional averages tends to increase during periods of mortgage market tightness and to narrow when market conditions ease.

The highest prices and best supply of funds have been reported in the Northeast and Middle Atlantic areas. In the other four regions, high prices and an adequate supply of mortgage money have tended to occur only when there was a general weakening in money market conditions.

Technical Help for Area Development

The first three technical assistance project grants to be approved under the Area Redevelopment Act of 1961 have been announced by the United States Department of Commerce. The areas selected are southern Illinois, where the economic feasibility of constructing a 25,000-acre reservoir is being studied; northeastern Minnesota, where the testing of low-grade ores from the western Mesabi Range for possible use in iron and steel production is proceeding; and New Bedford, Massachusetts, where fishing production methods and facilities are being studied with the goal of stabilizing employment by increasing the local processing of the catch.

This program has been specifically designed to help break bottlenecks which currently impede economic

growth and to improve economic conditions. It is expected that this program, though aimed at specific local or regional development problems, will also serve areas with similar problems elsewhere in the country by establishing guidelines and procedures to be followed.

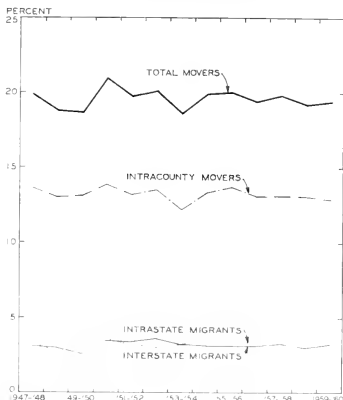
Population Mobility Remains Stable

During the past 14 years the over-all mobility rate of the population has fluctuated very little. In this postwar period the percentage of reported movers in the total population one year old and over has ranged from 18.6 to 21.0, as indicated in the chart. Of the 174 million persons one year old and over living in the United States in March, 1960, 12.9 percent had moved from one house to another in the same county during the preceding year. At the same time 3.3 percent were living in a different county in the same state and 3.2 percent in a different state from the previous year.

The lack of a definite trend in the mobility rates of the population is a result of offsetting trends within the white and nonwhite populations. The white pattern has been one of a declining intracounty movement with little or no change in the intercounty and interstate rates. On the other hand, the nonwhite population has shown an increase in intracounty movement, with decreases in intercounty and interstate movement.

During the 1959-60 period the mobility rate of the rural-nonfarm population reached 21 percent, some 1.7 percent higher than that of the urban rate and 7 percent above the rural-farm population. Postwar mobility rates were highest among the young adult ages and declined with age. Also the mobility of males continues to be higher than that of females, although the rate for young adult females (18-24) is somewhat higher than for their male contemporaries.

POPULATION MOBILITY



Source: U.S. Bureau of the Census.

LOCAL ILLINOIS DEVELOPMENTS

Illinois Ranked High in Exports

A nationwide survey by the Bureau of the Census placed the value of manufactured products exported by Illinois during 1960 at \$1,408 million. The State ranked second only to New York.

The survey, the first of its kind ever completed, was based on questionnaires returned by plants employing more than 100 workers and exporting more than \$25,000 worth of products in 1960. It showed that Illinois ranked first in exports of machinery (except electrical), with a value of \$653 million. In electrical machinery Illinois ranked second, with exports valued at \$124 million.

Illinois ranked first in food and kindred products, with exports valued at \$184 million, and in leather and leather products, exports of which were valued at \$18 million. The State ranked second in printing and publishing exports and third in exports of furniture and fixtures and of fabricated metal products. Substantial exports also occurred in transportation equipment (\$131 million), chemicals and allied products (\$56 million), and instruments and related products (\$38 million).

Other manufactured goods in which Illinois ranked high among the states as an exporter were rubber and plastic products, petroleum and coal products, and products of the primary metal industries.

Municipal Street and Highway Planning

The establishment of a new urban planning bureau in the Division of Highways was announced in January by W. J. Payes, Jr., director of the Illinois Department of

Public Works and Buildings. The purpose of the bureau is to assist Illinois municipalities in developing long-range street and highway programs and tying them in with local and regional development programs.

Present plans also call for expanding the urban planning section in the headquarters of the Division of Highways at Springfield. This will require the services of engineers who are specialists in the field of municipal street and highway improvements. Similar sections will be established in each of the 10 district highway offices.

The Division of Highways in recent years has completed a series of street and highway programs for East St. Louis, Rock Island-Moline-East Moline, Decatur, Rockford, Springfield, Peoria, Kankakee, Danville, Mattoon, Joliet, Quincy, Galesburg, Carbondale, Waukegan, Pekin, and Champaign-Urbana. Street and highway plans are presently being developed for Bloomington-Normal, the Fox River Valley, and Mount Vernon.

Jobless Pay Changes Made

Substantial improvements in legislation affecting the unemployed were made during 1961. A major achievement was a change in the Illinois Unemployment Compensation Act which resulted in raising the maximum weekly benefits from \$32 to \$38 a week for a single person with no dependents and from \$50 to \$59 a week for an unemployed person with four or more dependents.

Another amendment to the act permitted payment of benefits to jobless workers undergoing vocational training. Eligibility requirements for temporary benefits were altered, making claimants who are entitled to extended payments under other state and federal programs ineligible for Illinois extended benefits.

Unemployment benefits in excess of \$174 million were paid during the first 11 months of 1961 under the regular Illinois Unemployment Compensation program. In addition, nearly \$43 million was paid from various federal programs operating within the State.

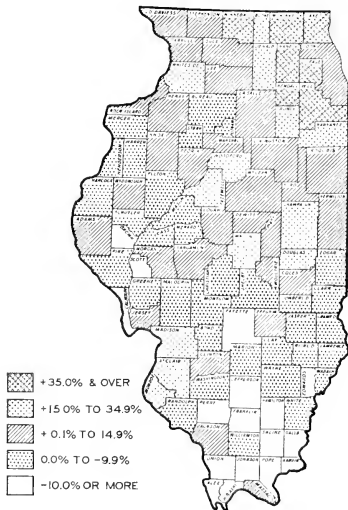
Illinois Population Increased

Between 1950 and 1960 the population of Illinois increased 1.4 million according to the 1960 Census of Population. This was the largest gain recorded during a 10-year period in the history of the State. Illinois, with 10,081,158 inhabitants, ranked fourth among the states in total population, and seventh in percentage of increase (15.7) for the decade.

Half of the state's counties gained and half lost population. The net increase in the 51 counties adding population was 1.4 million and the net decrease in the 51 counties losing population was 82,536. Most of the population gains occurred in the northern, central, and east central counties and in those counties with relatively large cities. Most of the losses were concentrated in the southern and western areas of the State (see chart).

The county showing the greatest gain from 1950 to 1960 was DuPage, with an increase of almost 103 percent. Increases amounting to 35 percent or more of the 1950 populations were registered by the counties of Kane (39 percent), Kendall (45 percent), Lake (64 percent), McHenry (66 percent), Will (43 percent), and Winnebago (38 percent). Losses of 20 percent or more were recorded for Alexander, Gallatin, Hardin, Johnson, Pope, Pulaski, and Saline counties, with the greatest loss — 30 percent — having occurred in Pope County.

POPULATION CHANGES, 1950 TO 1960



Source: U.S. Bureau of the Census.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1962

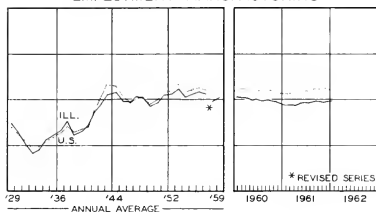
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
	Dec., 1961	\$17,934 ^a	1,440,891 ^a	\$726,105		\$23,193 ^a	\$16,657 ^a
Percentage change from	Jan., 1961	-31 2 -27 1	+6 0 +10 5	+13 9 +6 0	-58 -1	+3 8 +7 9	-10 2 -1 3
NORTHERN ILLINOIS							
Chicago							
	Dec., 1961	\$13,624	1,046,887	\$514,498		\$21,563	\$14,194
Percentage change from	Jan., 1961	-39 3 -25 5	+5 4 +10 0	+12 2 +6 0	-57 0	+3 8 +8 1	-18 1 -1 5
Aurora							
	Dec., 1961	\$ 116	n.a.	\$13,025		\$ 83	\$ 178
Percentage change from	Jan., 1961	-28 8 -58 0		+28 6 +17 2	-59 -1	-0 0 +0 6	-16 0 +2 8
Elgin							
	Dec., 1961	\$ 196	n.a.	\$ 8,668		\$ 55	\$ 150
Percentage change from	Jan., 1961	-35 7 -35 9		+15 0 +6 0	n.a.	+2 1 +4 8	+0 4 +3 9
Joliet							
	Dec., 1961	\$ 97	n.a.	\$15,238		\$ 103	\$ 116
Percentage change from	Jan., 1961	-17 1 -62 4		+22 1 +9 1	-61 0	+7 8 +11 0	-36 9 -4 8
Kankakee							
	Dec., 1961	\$ 887	n.a.	\$ 7,655		n.a.	\$ 78
Percentage change from	Jan., 1961	+2,011 9 +577 1		+26 2 +11 3	n.a.		-17 6 +13 0
Rock Island-Moline							
	Dec., 1961	\$ 657	33,666	\$15,227		\$ 124 ^b	\$ 181
Percentage change from	Jan., 1961	-9 8 +32 5	+7 8 +34 8	+27 8 +10 6	n.a.	-2 4 +7 3	-28 6 -11 5
Rockford							
	Dec., 1961	\$ 1,187	64,432 ^c	\$26,724		\$ 215	\$ 277
Percentage change from	Jan., 1961	+93 9 -29 1	+13 1 +11 9	+12 3 +10 8	-65 ^c +1 ^c	-1 3 +6 5	-25 3 +9 1
CENTRAL ILLINOIS							
Bloomington							
	Dec., 1961	\$ 650	13,043	\$ 8,363		\$ 99	\$ 120
Percentage change from	Jan., 1961	+702 5 +324 8	-2 6 +5 7	+18 8 +12 1	n.a.	+15 0 +15 3	-24 1 -3 1
Champaign-Urbana							
	Dec., 1961	\$ 187	19,107	\$12,742		\$ 92	\$ 139
Percentage change from	Jan., 1961	+7 5 +62 6	+9 5 +14 0	+14 3 +20 7	n.a.	+2 3 +3 8	-27 5 +11 9
Danville							
	Dec., 1961	\$ 145	19,876	\$ 8,782		\$ 53	\$ 78
Percentage change from	Jan., 1961	+79 0 -66 3	+11 4 +28 1	+20 4 +6 4	-66 +9	-0 1 -0 1	-29 2 -1 5
Decatur							
	Dec., 1961	\$ 81	39,185	\$15,175		\$ 125	\$ 134
Percentage change from	Jan., 1961	+12 5 -59 7	+5 6 +4 4	+16 7 +5 0	-61 ^c -6 ^c	-1 6 +0 2	-26 5 +4 0
Galesburg							
	Dec., 1961	\$ 0	10,786	\$ 6,258		n.a.	\$ 41
Percentage change from	Jan., 1961	-100 0 -100 0	+6 2 +3 2	+22 4 +3 9	n.a.		-40 3 -22 3
Peoria							
	Dec., 1961	\$ 0	67,866 ^b	\$23,489		\$ 267	\$ 323
Percentage change from	Jan., 1961	-100 0 -100 0	+1 5 +8 4	+17 4 -19 5	-62 -3	+1 3 +11 8	-30 6 -3 6
Quincy							
	Dec., 1961	\$ 49	16,367	\$ 7,637		\$ 59	\$ 81
Percentage change from	Jan., 1961	-66 1 -71 2	+16 7 +18 5	+17 3 +9 0	n.a.	-0 5 -1 5	-31 6 -5 4
Springfield							
	Dec., 1961	n.a.	49,857 ^a	\$18,744		\$ 157	\$ 372
Percentage change from	Jan., 1961		+2 6 +11 9	+12 2 +18 2	-61 ^c -13 ^c	+15 0 +10 1	-6 6 -3 6
SOUTHERN ILLINOIS							
East St. Louis							
	Dec., 1961	\$ 7	18,207	\$10,378		\$ 148	\$ 92
Percentage change from	Jan., 1961	-54 2 -11 7	+4 7 -3 9	+14 6 +9 9	n.a.	+6 7 -5 4	39 3 +1 6
Alton							
	Dec., 1961	\$ 28	27,161	\$ 6,989		\$ 49	\$ 40
Percentage change from	Jan., 1961	-81 8 -98 1	+14 8 +13 9	+21 5 +11 7	n.a.	+9 3 +6 6	15 9 +3 4
Belleville							
	Dec., 1961	\$ 23	14,450	\$ 6,515		n.a.	\$ 53
Percentage change from	Jan., 1961	-80 7 +27 8	+9 7 +6 2	+18 6 +2 7	n.a.		-11 6 +3 5

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue Data are for December, 1961. Comparisons relate to November, 1961, and December, 1960. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending February 2, 1962, and February 3, 1961.

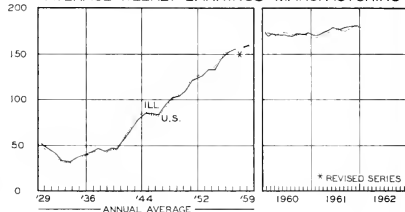
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

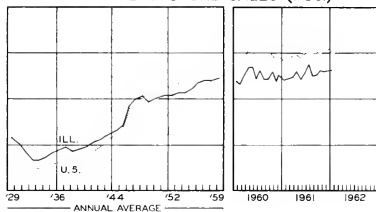
EMPLOYMENT-MANUFACTURING



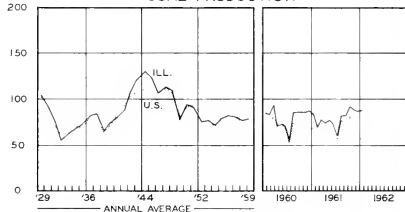
AVERAGE WEEKLY EARNINGS-MANUFACTURING



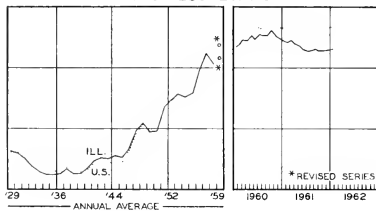
DEPARTMENT STORE SALES (ADJ.)



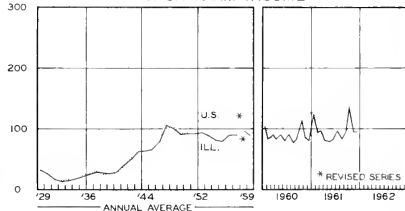
COAL PRODUCTION



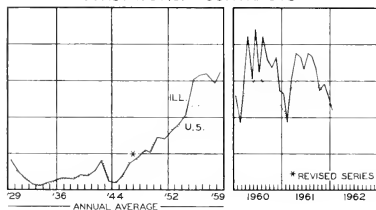
BUSINESS LOANS



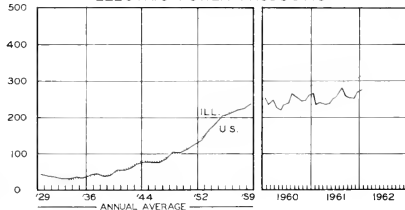
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 19

APRIL, 1962

NUMBER 4

HIGHLIGHTS OF BUSINESS IN MARCH

Although many observers of business conditions have expressed concern about the sluggish pace of the economy, March activity was generally characterized by further advances. The automobile industry produced 687,000 passenger cars, nearly 50 percent more than in the year-earlier month and 28 percent more than in February. Sales of about 616,000 American-made cars were more than one-fourth higher than in March, 1961, and well above February on a daily rate basis. Weekly steel production was down slightly as declining fears of a strike in the industry reduced orders. But paper and paperboard production advanced, as did electric power output. The index of industrial production picked up 1 point to reach a new peak of 116 percent of the 1957 average.

The high level of automobile sales and record department store volume contributed to a new high in seasonally adjusted retail sales at \$19.3 billion. Unemployment in March fell 161,000 to 4.4 million, a somewhat greater than seasonal decrease, and employment rose seasonally to 66.3 million, up 527,000 from February.

Personal Incomes Rise

The nation's personal income in March increased to a record seasonally adjusted annual rate of \$435 billion. This was slightly above the February rate and almost 7 percent higher than in March of last year.

The record rate in March reflected increased incomes of many different economic groups—factory workers, business proprietors, professional persons, and farm owners. Construction payrolls were one of the few categories to decline, because of the lag of construction activity behind the recent increase in housing starts.

Construction Expands Seasonally

Preliminary estimates indicate that the value of total new construction put in place in March amounted to \$4.1 billion, about 8 percent more than the revised estimate for February and 2 percent above March, 1961. The increase from February was approximately the normal seasonal change expected at this time of year.

Spending for total new private construction in March amounted to \$3.0 billion, 7 percent above the revised February figure and 4 percent above March, 1961; the normal seasonal rise expected between February and March is put at 6 percent. Construction of private non-farm residential buildings accounted for \$1.6 billion, about the normal seasonal 9 percent increase over February.

Total new public construction expenditures were estimated at \$1.1 billion, 9 percent more than the revised February figure and 4 percent below March a year ago. An increase of about 12 percent in this type of construction is normally expected between February and March.

Sales, Inventories Rise

Total sales of manufacturing and trade firms advanced \$650 million on a seasonally adjusted basis to \$64.7 billion in February. Increases of \$690 million in manufacturers' sales and \$220 million in retail sales more than offset a \$260 million decline in sales by wholesalers. Both durable and nondurable goods industries shared widely in the sales gain of manufacturers, although much of the increase in the former was concentrated in the steel and motor vehicles and parts industries. Most major lines of trade participated in the improvement in retail sales. The entire decline in wholesale sales occurred in nondurable goods.

The book value of inventories held by manufacturing and trade firms rose \$550 million in February, after seasonal allowances, bringing the total to \$96.7 billion. Additions to manufacturers' stocks, mostly in the durable goods industries, accounted for \$450 million of the increase.

Total inventories at the end of February were up \$3.1 billion from the year-earlier figure and total sales for the month were up \$4.5 billion, so the stock-sales ratio of 1.5 was down about 5 percent.

Consumer Debt

The annual post-Christmas curtailment of consumer short- and intermediate-term debt continued in February, reducing the total of these obligations outstanding at the end of the month to \$55.6 billion, \$686 million below the month-earlier figure. After allowance for seasonal factors, an increase of \$137 million was recorded, a gain of \$236 million in instalment debt more than offsetting a decrease in noninstalment debt.

On a seasonally adjusted basis, automobile paper rose \$127 million, other consumer goods paper \$28 million, personal loans \$79 million, and repair and modernization loans \$2 million. The decline in noninstalment debt reflected decreases in charge accounts and single-payment loans that more than offset a small advance in service credit.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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On Savers and Saving

The saving of individuals is widely recognized to be the key to our economic growth. The money that individuals, and businesses, put aside serves as the means for new investment, which in turn provides the basis for increased, and hopefully, more efficient production of goods and services. This is what distinguishes a capitalistic system from other economic systems.

In view of this central importance of individual saving in our economy, it is surprising to realize how little we know about it. Two questions in particular perplex us: the optimum rate of saving, and who saves what.

A Paradox

If a nation is to grow and prosper, its rate of saving has to be maintained. But before a nation can grow and prosper in the long run it must survive in the short run, and this means that the rate of current expenditures of the population has to be kept at a level sufficient to maintain a high and stable demand for goods and services. If individuals save too large a proportion of their income, current demand may drop and bring about a recession, with deleterious effects on the nation's long-run prospects. On the other hand, if individuals save too little of their incomes, the nation is likely to prosper in the short run but at the expense of long-run growth.

What, then, is the optimum allocation between saving and expenditures at given levels of national income? How much should this nation save out of its income each year to bring about the most effective balance between current well-being and future growth? We don't know. The problem is so complex and involves so many other factors, since virtually all economic events are interdependent, that the solution is beyond our present knowledge. In theory, such optima can be developed, but the assumptions underlying the estimates tend to be so unrealistic that the results are of little value for practical purposes.

It is not unlikely that this optimum saving rate varies with the nation's stage of economic development. Yet over the past century the nation has grown remarkably, while the proportion of income individuals are saving currently seems to be no different from the proportion they saved 50 or 100 years ago — between 6 and 8 percent of their income.

This is one of the major paradoxes of economics. Sample surveys and budget studies made during the past century show that the proportion of income saved rises substantially with the income level of the family. At the same time, the income of American families has increased tremendously over the years, with more and more families moving into the middle-income and high-income ranges. Therefore, one would expect people currently to be saving far greater proportions of their income. Nevertheless, the saving rate has remained virtually constant.

Many reasons have been advanced to explain this paradox — the rising multiplicity of goods and services as a brake on increased saving, the increasing pressure on Mr. Smith to keep up with Mr. Jones, the importance of social class and conspicuous consumption, and so on. To what extent any or all of these theories may account for this paradox is still a highly controversial question.

Why, How, and What?

National averages are made up of the actions of individuals, and what is true in an average sense may vary considerably by individuals. Hence, to understand the nature of saving, we must get away from averages and inquire why people save, how people save, and what they do with their savings. In some respects we can answer these questions fairly well, while in others answers are almost nonexistent. Thus, it is clear that people save not for such aggregative reasons as national economic growth, but for purely personal reasons — for old age, for emergencies, for security. Furthermore, people save in numerous ways, by setting aside a certain proportion of income in advance, by saving whatever is left over after spending, by forced saving plans, and so forth. The tendency to save is well-nigh universal, although many people delude themselves to the contrary, as when they overlook contributions to pension plans.

To be sure, some save more than others, the most pronounced relationship being the rise in the saving rate with income level. However, this relationship tends to camouflage the extreme variability in saving rates among people at the same level of income — a possible manifestation of the fact that the will to save is at least as important as the means to save. In this sense, psychological characteristics appear to dominate, for there is as much variability in saving rates among people at the same income level as among people at different income levels, and the nature of these characteristics has yet to be identified.

When we turn to consider what people do with their savings, we are even more in the dark. Why do some people keep their savings in one form while others keep their savings in a different form? From the point of view of national welfare it is a matter of great concern that money, when saved, be available for investment and not, say, be placed under the mattress. Except for some fairly obvious generalizations, recent studies suggest that the form in which consumers hold their assets follows no well-defined relationship. On the contrary, such studies suggest the rather remarkable finding that the ownership of one asset does not affect the likelihood of owning other assets. In other words, whether a man does or does not have savings accounts appears to have nothing to do with whether he has money invested in common stocks.

All this is not to say that we have no information about the factors that influence the portfolio composition of consumers. We know that as people acquire more assets they shift an increasing proportion of their port-

(Continued on page 8)

PLASTIC — A MARVEL OF SCIENCE

Commercial plastic is a wonder of modern science. Through chemistry, this synthetically formulated substance provides an inexpensive, extremely versatile material for thousands of useful products.

Although the existence of commercial plastic dates from 1868, when celluloid first appeared as a substitute for ivory in billiard balls, the plastics industry has experienced its most remarkable progress in the past two decades. Before that time, the few plastics available were utilized principally for certain specialty items, because of the physical limitations of these plastics. With the onset of World War II, the increased need for synthetics greatly accelerated both the development of newer plastics and their range of potential applications. As a result, plastics production has grown into a major tonnage material, expanding from 4 million pounds in 1920 to more than 6.5 billion pounds today, and the commercial plastics industry has joined the giant chemical industries.

The Industry

In 1960, the plastics industry shipped a product valued at an estimated \$3.7 billion, or more than four times the 1947 value. During the same period, total employment rose 100 percent to 185,000.

There are two major groups of producers in the plastics industry: raw material manufacturers and fabricators. Raw material producers, as their name implies, are primarily engaged in making basic plastic resins and compounds for sale to fabricators, who use various methods to convert plastics into finished products.

Illinois is particularly prominent in the fabricating phase of the industry. With approximately 300 of the 3,300 converting plants, Illinois leads all other states in the manufacture of finished plastic products, currently accounting for about 15 percent of the national total. The average plant employs about 55 persons, and about 30 establishments have more than 250 workers.

With only 22 of the industry's nearly 349 raw material plants in 1958, Illinois lagged far behind such heavy-producing states as Pennsylvania and New Jersey. Still, shipments by Illinois plants in 1960 reached an estimated \$95 million, a figure which placed Illinois among the top seven plastic manufacturing states. A large share of the plastics made in the State comes from the U.S. Industrial Chemicals plant at Tuscola.

Manufacture and Fabrication

Plastics, although derived from numerous raw materials, are manufactured in one of four basic types. Of these, the most widely utilized are the synthetic resins produced from natural resources. The others, in descending order of importance, are cellulose derivatives, protein substances (such as casein), and natural resins. Various additives are combined with these basic materials in order to obtain a greater variety of characteristics. The resulting compounds are converted into powder, liquid, granular, pellet, or flake form and then sold to fabricators.

Compounds are turned into finished goods by a number of methods, which largely depend upon the desired shape of the end product. Plastics may be molded into specific articles, or may be squeezed into rods, tubes, monofilament threads, sheets, or films; if desired, these forms can be further fabricated with machine shop tools. Other important fabricating methods include laminating—the sandwiching of paper, cloth, or wood layers with liquid plastics; calendering—the coating of fabrics and paper; and reinforcing—the combining of liquid plastics with a variety of fibrous materials in order to get a stronger material.

Thermosetting Plastics

Plastics generally fall into one of two major categories. They may be thermosetting plastics, which are permanently shaped by heat and pressure and cannot be remelted or reshaped, or thermoplastics, which harden upon cooling and can be reworked many times. Whereas the former undergo a chemical change, thermoplastics merely change physical form.

Phenolics, alkyds, ureas, and melamines are among the more important thermosetting plastics. Phenolic, of which Bakelite is a common type, is a strong, hard material chiefly used in molded articles, such as telephone handsets, washing machine agitators, and electric switches. Made from alcohol and organic acids, alkyd plastics find their most practical utility in surface coating demanding high heat and moisture resistance. Urea and melamine are two extremely hard thermosetting plastics which take a range of rich, translucent colors. Urea has become increasingly popular for plywood bonding, paper treating, and textiles, as well as for small colorful molded products. About 90 percent of melamine output goes into plastic tableware.

The Popular Thermoplastics

The dynamic postwar expansion of the industry has been augmented principally by the growth of thermoplastics, which by 1960 accounted for about three-fourths of total tonnage. Contributing greatly to this rise has been the amazing popularity of polyethylene plastic, an inexpensive but tough, waxy material widely used for packaging. The output of polyethylene, which became the industry's largest-selling product by tonnage in 1956, jumped more than 132 percent to 1.2 billion pounds between 1956 and 1960.

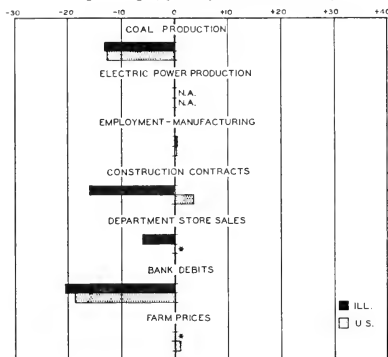
Versatile vinyl, the industry's leading plastic type throughout most of the postwar period, has found countless applications, extending from phonograph records and hoses to adhesives and raincoats. In addition, vinyls are widely used for floor covering. Other important thermoplastics are the styrenes, an older family of plastics utilized primarily in refrigerating and air conditioning equipment, the cellulose plastics, acrylics, and protein plastics, all of which together account for nearly a fourth of total industry shipments.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, January, 1962, to February, 1962



* Not seasonally adjusted.

* No change.

ILLINOIS BUSINESS INDEXES

Item	Feb. 1962 (1947-49 = 100)	Percentage change from Jan. 1962	Feb. 1961
Electric power ¹	243.4	-11.7	+ 5.1
Coal production ²	76.6	-13.1	+11.0
Employment—manufacturing ³	98.7	+ 0.4	+ 3.5
Weekly earnings—manufacturing ⁴	178.8 ^a	- 2.0	+ 4.5
Dept. store sales in Chicago ⁵	118.0 ^b	+ 4.4	- 2.5
Consumer prices in Chicago ⁶	104.4	+ 0.5	+ 0.9
Construction contracts ⁷	183.9	-16.0	- 2.8
Bank debits ⁸	210.6	-20.6	+ 1.7
Farm prices ⁹	97.0	0.0	- 4.9
Life insurance sales (ordinary) ¹⁰	292.2	+ 7.1	0.0
Petroleum production ¹¹	115.0	- 6.6	+ 7.0

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Genl. Survey.

* Data for January, 1962, compared with December, 1961, and January, 1961; ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Feb. 1962	Percentage change from Jan. 1962	Feb. 1961
Personal income ¹	432.8 ^a	+ 0.6	+ 7.4
Manufacturing ²	393.6 ^a	+ 2.2	+13.1
Sales	56.2 ^{a, b}	+ 0.9	+ 4.9
Inventories	17.9	- 9.2	+12.7
New construction activity ³	15.8	- 1.7	- 0.8
Private residential	12.8	- 6.6	+ 2.8
Private nonresidential	n.a.		
Total public	n.a.		
Foreign trade ⁴	n.a.		
Merchandise exports	n.a.		
Merchandise imports	n.a.		
Excess of exports	n.a.		
Consumer credit outstanding ⁵	55.6 ^b	- 1.2	+ 3.2
Total credit	42.6 ^b	- 0.5	+ 2.3
Instalment credit	36.8 ^b	+ 0.8	+ 1.2
Business loans ⁶	37.3 ^c	- 2.7	+ 0.9
Cash farm income ⁷			
Industrial production ²	115 ^{a, d}	+ 0.9	+12.7
Combined index	110 ^{a, d}	+ 0.9	+11.7
Durable manufactures	122 ^{a, d}	+ 0.8	+ 9.9
Nondurable manufactures	99 ^{a, d}	0.0	+ 3.1
Minerals			
Manufacturing employment ⁴	98 ^{a, e}	+ 0.7	+ 4.4
Production workers			
Factory worker earnings ⁴	100 ^a	+ 0.8	+ 2.6
Average hours worked	179 ^a	- 0.4	+ 3.9
Average hourly earnings	180 ^a	+ 0.3	+ 6.6
Average weekly earnings	241 ^a	+ 3.4	+23.0
Department store sales ⁵	151 ^a	+ 1.3	+ 4.1
Consumer price index ⁶	105 ^a	+ 0.3	+ 1.0
Wholesale prices ⁸			
All commodities	101 ^a	0.0	- 0.2
Farm products	98 ^a	+ 0.3	- 0.1
Food	102 ^a	+ 0.1	- 0.6
Other	101 ^a	- 0.1	- 0.3
Farm prices ⁹			
Received by farmers	101	+ 1.0	0.0
Paid by farmers	104	0.0	+ 1.0
Parity ratio	80 ^a	0.0	- 1.2

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for January, 1962, compared with December, 1961, and January, 1961; ⁹ 1957 = 100. ^a Revised. ^b 1957-1959 = 100. ^c Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1962				1961
		Mar. 31	Mar. 24	Mar. 17	Mar. 10	Mar. 3
Production:						
Bituminous coal (daily avg.)	thous. of short tons	1,373	1,372	1,369	1,313	1,248
Electric power by utilities	mil. of kw-hr.	15,552	15,879	16,142	16,418	16,514
Motor vehicles (Wards)	number in thous.	163	165	160	157	162
Petroleum (daily avg.)	thous. bbl.	7,353	7,357	7,335	7,266	7,403
Steel	1957-59 = 100	129.7	128.5	128.1	127.1	126.7
Freight carloadings	thous. of cars	565	556	545	526	528
Department store sales	1957-59 = 100	148	141	138	120	119
Commodity prices, wholesale:						
All commodities	1957-59 = 100	100.5	100.6	100.7	100.7	n.a.
Other than farm products and foods	1957-59 = 100	100.7	100.7	100.7	100.7	n.a.
22 commodities	1957-59 = 100	83.9	84.3	84.4	83.8	83.1
Finance:						
Business loans	mil. of dol.	33,014	33,145	32,007	32,203	32,204
Failures, industrial and commercial	number	330	351	339	364	311

Sources: Survey of Current Business, Weekly Supplements.

* Monthly index for March, 1961.

RECENT ECONOMIC CHANGES

Balance of Payments Improves

A considerable improvement in the balance of payments of the United States occurred during 1961, the adverse balance having declined from \$3.9 billion in 1960 to \$2.4 billion last year. Holdings of gold and convertible currencies by United States monetary authorities fell \$700 million, compared with \$1.7 billion in 1960. United States liquid liabilities held by foreigners and international organizations increased \$1.7 billion, compared with \$2.2 billion the previous year.

Part of the improvement during 1961 stemmed from special debt repayments totaling \$700 million received from Germany, Italy, and the Netherlands. Foreign investments in the United States and income from United States investments abroad also helped raise receipts. These accounted for about \$400 million and \$350 million respectively.

The improvement in the over-all balance during 1961 occurred primarily in the first half of the year, payments having risen again during the second half. This increase in payments during the second half of the year can be attributed to an advance in merchandise imports resulting from the expansion in domestic business activity and to a large increase in capital outflows during the fourth quarter. These capital outflows included contributions to international organizations of about \$170 million, and bank loans of about \$150 million to Japan and \$100 million to the Philippines.

State and Local Government Purchases Up

Total outlays of state and local governments for goods and services reached \$51.5 billion in 1961. This amounts to \$280 per person, as indicated in the accompanying chart. Direct purchases of goods and services constitute a much larger proportion of total expenditures for state

and local governments than they do for the federal government.

The chart indicates that the growth in state and local government purchases has continued to outpace the population increases of recent years as pressure on existing facilities and responsibilities of these governmental units in many areas of the country have increased. Outlays for education and highways account for over half of the total purchases of these governmental units. Health and sanitation, general administration, and civilian safety make up most of the remainder.

A rise in the proportion of payroll expenditures to 54.5 percent of the total outlay was the result of adding 900,000 full-time employees to these governmental payrolls during the last five years, bringing total full-time employment by state and local governments to 5.5 million in 1961. One-fourth of the total outlays for goods and services by these governmental units was expended for new construction; all other purchases from business rose from \$6.3 billion in 1957 to \$10.2 billion in 1961.

Milk Production Rises

Milk production during 1961 set a record high of 125.5 billion pounds, 2 percent above the 1960 total and exceeding the previous peak of 124.9 billion pounds in 1956.

The record-high milk production last year amounted to 686 pounds per person and was accomplished with 17.4 million milk cows, the smallest number recorded since the series was begun in 1924. Milk output per cow advanced 3 percent from 1960 to a record high of 7,211 pounds. Each year since 1944 has brought new record outputs per cow, the increase during this period amounting to 58 percent.

Individuals' Saving Increases in 1961

During 1961 net financial saving of individuals in the United States amounted to \$16.9 billion, an increase of 63 percent over 1960. It is estimated that the total equity of individuals in financial assets, net of liabilities, amounted to nearly \$900 billion by the end of 1961, an increase of 15 percent during the year.

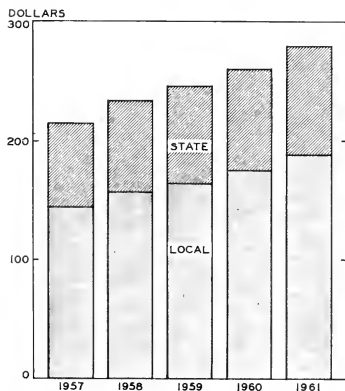
The pattern of individuals' saving during 1961 was characterized by an upward movement in savings deposits, savings shares, and savings bonds. There was a continuing increase in the purchase of investment company issues, as investment in mutual fund shares set a new record of \$2 billion. However, individuals' holdings of stock other than investment company shares were reduced by almost \$2 billion in 1961, reflecting a large amount of institutional purchases of equity issues and large redemptions of stock issues, which included sizable cash liquidation payments. A record \$9.6 billion was added to savings in private insurance and pension reserves, while individuals' debt increased \$14.4 billion from the previous year.

Fluctuating Auto Sales

During 1961 some 6 million passenger cars were sold, 10 percent fewer than during 1960. In the first quarter of 1962 the rate of buying, although below the high rate of the 1961 fourth quarter, was about 25 percent, or \$3.5 billion, above last year's first quarter.

The demand for autos has shown wide fluctuations during most of the postwar period. During the early 1950's private purchases of autos constituted as much as

PER CAPITA PURCHASES BY STATE AND LOCAL GOVERNMENTS



Source: U.S. Department of Commerce.

(Continued on page 8)

PUBLIC EDUCATION IN THE UNITED STATES*

WERNER Z. HIRSCH, Washington University

The increase in expenditures for public education in America in this century is impressive. The cost of public primary and secondary education has risen from less than \$200 million in 1900 to about \$16 billion today. At present the full-time equivalent of about 2.5 million persons are employed in public education at the state and local levels. These figures reflect only current expenditures plus debt service; capital outlays are not included. Education, however, has not only become more important, but it has changed greatly during that period. Today it exists predominantly in an urban environment. About two-thirds of all Americans live in metropolitan areas, which accounted for 84 percent of the nation's entire population increase during the last decade, and this trend is likely to continue.

Americans have been moving toward an industrial way of life for almost two centuries, concentrating in metropolitan agglomerations. Rapid urbanization, of course, reflects the character of the nation's technological development, economic organization, and importance of education. Apparently the large population agglomeration is an efficient producer and consumer of material, intellectual, and cultural values.

The educated man, not unlike the creative artist, needs the city because both, especially during their formative years, benefit from the tension generated between extremes of choice and the ensuing challenge of commitment. In those instances when the city fails in this function, it is less for technical or formal reasons than for a lack of readiness on the part of its inhabitants to embrace an urban way of life, which is as demanding as it is rewarding.

Education — A Factor in Metropolitan Growth

Metropolitan growth has been more than a merely quantitative phenomenon. Education in urban areas has greatly increased our pool of skilled manpower. It has been an inducement to industry and this, in turn, has led to further economic opportunities which have attracted increasing numbers of Americans. We can divide industry into two main categories — low-wage-oriented industries (such as leather and textile firms) and skill-oriented industries (e.g. those engaged in research and development). The latter group is attracted to cities, and especially to those with good universities. Perhaps the outstanding examples are Boston, San Francisco, and Los Angeles, where fine institutions of higher learning have been instrumental in the phenomenal growth of commercial research activity. The availability of good education has similarly generated rapid economic growth of other skill-oriented industries.

A good university can often spark a major chain reaction. Persons with highly developed skills have generally acquired respect for knowledge. They insist on high-quality education for their children; they are willing to support higher education so that they can benefit from association with knowledgeable and original minds. Their incomes tend to be higher and they are thus able to help finance good education. Indeed, all these factors provide a good intellectual climate, which is self-reinforcing. These factors also prove profitable in the most literal sense of the word. Metropolitan growth that

feeds on skill-oriented industries tends to improve incomes, as well as the tax base.

Educated people have a desire and need for cultural activities; they appreciate the amenities of life. The city that is host to educated Americans by offering intellectual and cultural advantages helps fulfill their highest aspirations. Top management tends to favor the location that offers a variety of amenities.

Educating Negroes

Until World War II, the Negro was primarily a rural southern dweller. Great changes have occurred since then. Between 1900 and 1950, the percentage of Negro population in cities rose from 17 to 48, and the percentage outside the South rose from 10 to 32. During the last decade it has certainly grown greater and the Negro is becoming increasingly urban.

The urban Negro has shared some of the advantages of urban life, but his potential is far from being fully utilized, mainly because of lack of education. In addition, and possibly in part for the same reason, he suffers disproportionately from social problems compared with urban whites. According to Lee Robins,

He violates the majority norms through a high crime rate, family desertion, illegitimacy, alcoholism, physical violence and divorce. . . . His cost to society in welfare services and public hospitalization is high because his position at the bottom of the socio-economic hierarchy makes him the most vulnerable to economic fluctuations and the least able to provide for major illness. His unstable family patterns result in high demands for aid to dependent children. The Negro's low rate of self-fulfillment, as measured by low educational achievement, low rate of entry into the skilled occupations and professions, and low rate of participation in cultural activities, is particularly striking. The issue has, of course, been raised as to whether there is an underlying difference in human potential between Negroes and whites. But arguments about what the upper limits of that human potential may be seem irrelevant to the current situation, when the gap between potential and achievement is so conspicuously gross both for Negroes and for many whites.¹

She concludes

Our best estimate of the nature of the relationship between social class and social purposes at the present time appears then to be that low socio-economic status and social problems form a vicious circle.

Perhaps one of the most promising ways to break into this circle is through education. If it is, Negroes can improve their economic position, begin living a fuller life and, to an increasing extent, contribute to society at large. Opening more universities to young Negroes is not the immediate answer, since few Negroes have sufficient primary and secondary education to benefit. The emphasis must first be placed on the public schools, mainly those in core cities where the majority of urban Negroes live.

Perhaps the most characteristic attribute of American core cities is their physical decay. Less obvious, but more important, is the social deterioration of the community. The shared purposes, values, and traditions that distinguish healthy communities are shattered when successive waves of in-migrants bring new patterns of living into conflict with the old. As the neighborhoods change, many establishments simply leave or the unfavorable con-

* Based on a lecture given at the Frontier of Science Foundation of Oklahoma City, Inc., on January 12, 1962.

¹ Lee Robins, *Social Problems Associated with Urban Minorities* (St. Louis: Washington University, Institute for Urban and Regional Studies, 1961), pp. 9-10.

ditions are increasingly ignored by the core city's residents. The school, however, remains. It must be reckoned with, if for no other reason than the existence of compulsory education laws. The school is the point of contact for many of the fragmented social groups of the core city, i.e., family, neighborhood, children's peer groups, and so on. Because of this central position, the school is uniquely situated to serve as a counterbalancing force to the social alienation and the concomitant human ills which so beset the American core city. Up to now the centrality of the core city school is more illusory than real. Teaching staffs are ordinarily transient. Teachers in slum schools tend to be least experienced. They display the highest turnover and poorest morale. Educators have assumed for too long that methods effective in the middle-class suburban school will also be successful in the core city. They have tended to ignore the speed and universality of change in core cities, and the significance of the stress this change places upon the school, its pupils, teachers, and administrators.

The urban slum school cannot at present count upon family influence to reinforce its attempt to create favorable attitudes toward achievement in its pupils. Whereas the suburban school often must be defended against overzealous adult interference, in the core city it is necessary to create adult interaction with the school. An all-out effort is needed to turn the core city school into a community hub and to increase the effectiveness of its educational program.

The movement of Negroes and other ill-educated groups into metropolitan areas has caused serious financial problems. The port of entry tends to be the core cities, which already face fiscal difficulties. The nation will have to decide whether these core cities, the most vulnerable of all melting pots, should have financial aid to improve the education and opportunities of these vast numbers of immigrants who, in turn, will ultimately contribute to the growth and strength of America. Yet this is only part of the whole problem, which must be viewed in a broader setting.

Bearing the Costs

While a certain portion of education will continue to be privately rendered, the overwhelming share will have to be financed by government. Our society relies on a federated political and fiscal system. So far as the financing of education in metropolitan areas is concerned, this can lead to efficiency, equal treatment of citizens, and high-level services, or to waste, inequities, and inadequate services.

Intergovernmental fiscal relations are guided by four main motives—intervention and encouragement, equalization, technical taxation conditions, and responsibility. Thus, for example, state or federal governments can intervene to encourage school districts to offer more and better education and to stimulate greater efficiency. On the other hand, inequities arise in a federated type of political and fiscal system because governments differ in their tax sources, needs, and cost and benefit spillovers. Until recently the absence of good communication, and the resulting unfamiliarity with conditions elsewhere, made comparisons difficult and so prevented dissatisfaction with the situation at home. Specialization, urbanization, and improved communications have sharpened the drive toward equalization.

Spatial spillover of education costs and benefits also plays an important role in intergovernmental fiscal relations. Public education creates benefits to the person who

is educated, to his family, his neighbor, his community, and to society at large. Some of the benefits accrue immediately; others begin to be realized only after 10 or 20 years. During this period many people may change residence. Is it therefore equitable to ask a local school district to finance the education of people who will benefit the nation at large and more specifically, other communities?

The equalization motive can readily lead to waste. However, if equalization is attempted with the aid of percentage state or federal grants, which are not made toward the actual but toward some calculated standard expenses, more economic use of funds is likely.

The responsibility motive tends to be inconsistent with the other three, but it is important that the recipients of funds administer them efficiently. Here it is important to remember that the higher the subsidy level, the less responsibility local school districts will tend to feel for expending funds wisely.

Metropolitan areas vary greatly in terms of the organization of their school districts. In the school year 1961-62, municipalities operated 416 and towns or townships 1,146 school systems. Independent school districts throughout the country numbered more than 35,000. Most metropolitan areas have fragmented school districts. Few rely exclusively on the taxes they themselves raise. Instead, most benefit from state subsidies which attempt to establish a floor, below which educational opportunity cannot be allowed to fall. There have been suggestions that the federal government pass legislation which would produce a federally underwritten floor. Likewise, metropolitan area-wide floors have been proposed, to be achieved by pooling the area's property tax base. These proposals strongly reflect the equalization motive, and since in most cases the floor has been fairly low, responsibility has not been compromised to a major degree. While state floors should in many instances be raised, a shift to grants, which are made toward some calculated standard school expenses, appears desirable. Such a shift would also facilitate the introduction of cost accounting procedures, a step fully consistent with efficiency and responsibility.

Many of the existing subsidy programs have not encouraged experimentation with methods which, while costly, could improve the quality of education. To overcome this defect, such programs might be supplemented by making grants for specific experimental programs. These, if successful, could greatly improve the quality of education.

In some cases large-scale consolidation has long been advocated. Such a step imposes a floor as well as a ceiling on school expenditures, and is claimed to improve equality of opportunity as well as of efficiency.

Of no less importance regarding consolidation is the fact that the experience of industry does not always apply. The size of an urban school's physical plant, unlike the size of an industrial plant, often cannot be enlarged because of its location. Even in large urban school districts, schools will have to be numerous and relatively small; parents object to their children traveling far to school.

If public schools in metropolitan areas are to flourish and promise the greatest possible contribution to the area's well-being, effective administration and financing arrangements are of the utmost importance. They should be a careful blend of responsibility, efficiency, and quality incentives with reasonable equality of opportunity and tax equity; the achievement of this is no mean task.

In November, 1961, voters in the state of New York, of whom more than 80 percent live in metropolitan areas, amended the state constitution to enable the state to lend as much as \$100 million to help finance new or expanding industry. New York's action is merely an example of steps taken by various governments in the United States to lure new industry. One major consideration has been a desire to improve the industrial tax base in the hope of alleviating difficulties of financing public education.

Thus we have come full circle. Good education has been a major factor in initially attracting people and industry into metropolitan areas. The resultant rapid growth has put a severe strain on the financing of education. On the surface, it appears that industry pays more for education than it receives and the argument is put forth that industrial plants pay school taxes but do not receive school services and therefore are an unqualified boon. This reasoning appears to have led to a universal desire to attract industry.

Is local industrial expansion likely to ease the strain on metropolitan areas in financing public education? A close look is in order. It will do so, if such an expansion makes possible either a reduction in taxes, while per pupil school services are maintained at their existing quality, or permits an improvement more than equal to the accompanying tax increase. In order to shed light on this issue, the concept of a school district's net fiscal resources status is useful, i.e., the balance between direct and indirect contributions made by all levels of government to, and the direct and indirect costs of, the school district.

This concept includes the education costs of the children of the plant's workers, as well as of all those who in any way owe their employment to the plant. Taxes of the entire group are considered. Thus, an effect of an expanding industry on the school district's net fiscal resources status will tend to be unfavorable, and even negative, if it involves many unskilled workers, who usually have large families but low incomes.

To understand the fiscal impact of industrial development on public schools requires a so-called interindustry table, showing the changes caused by one industry on the others. Such a table is available for the St. Louis metropolitan area for 1955. Of St. Louis' 16 major industries, expansion of only one, petroleum refining, was found to promise improvement in the public schools' immediate fiscal position. Expansion of any of the other 15 industries appeared, instead, to promise deterioration of the area's school fiscal position. Particularly costly in this sense are such intensely labor-oriented industries as textiles and apparel and leather products.

This tentative conclusion should suggest the place economic growth occupies in the lives of residents of metropolitan areas. The residents benefit from growth to the degree that it improves the environment within which they live and work. Growth resembles an amenity of life, in that growing areas offer superior opportunities to the young and able. Areas that have developed at a substantially slower pace than the rest of the nation have proved unattractive to many who then turned toward greener pastures, usually in rapidly growing areas.

A metropolitan area's economic future depends to no small extent upon its human and natural resources; its economic structure; the capacity and vigor of the national economy; government's ability to create a favorable environment; and the actions, traditions, and aspirations of private decision-makers. Education plays a key role in all of these factors.

(Continued from page 2)

folios into variable-dollar assets, that is, assets whose call on dollars fluctuates with the price level, such as real estate and common stocks. We also know that as people get older they tend to put a larger proportion of their assets into a fixed-dollar form, such as savings accounts and government bonds.

Still, why people select particular assets remains much of a mystery. The usual characteristics that influence expenditures—income, education, occupation—appear to bear little relation to portfolio composition. About the only clue appears to be the tendency of people to invest money in assets with which they appear to have some acquaintance. Perhaps the best-known example of this phenomenon is the tendency of people owning a business to plough back all of their saving into the business. Nevertheless, the significance of this clue remains to be established, particularly whether it is the acquaintanceship that leads to the investment, or whether it is the investment that leads to the acquaintanceship.

All things considered, available evidence suggests rather strongly that saving is a highly individualistic characteristic not easily amenable to external influences. From the point of view of national economic policy, however, this leaves many questions unanswered. The policies of the Federal Reserve, the Treasury, and other branches of the federal government depend on the impact of changes in taxes, interest rates, or other policy instruments on individual savings, but little is known about what types of people have what forms of savings, let alone the probable impact of government policy. For example, if the capital gains tax were cut in half would trading in securities rise so much that government revenues would actually increase, as some security exchanges claim? We hardly know how stock ownership is distributed among population groups and whom to ask the proper questions, not to mention what questions to ask to obtain a realistic answer in such a case.

As the economy grows in complexity, answers to such questions are becoming increasingly important. Not only do such answers pave the way for more rapid economic growth but they serve to throw light on the factors that motivate human beings in their economic life. RF

Recent Economic Changes

(Continued from page 5)

5 percent of total final purchases of goods and services (gross national product less business inventory component). However, they fell to 3 percent in both 1958 and 1961, the lowest since the reconversion period following World War II.

Since 1957, car buying has averaged about 3.5 percent of total final purchases, but because car sales are extremely sensitive to general business conditions and other factors, changes in auto purchases have an important effect on the movement of final purchases. Auto purchases moved counter to changes in other final purchases in only 8 of the 20 quarters from 1957 through 1961. During those periods when both have moved in the same direction, autos have accounted for 20 percent or more of the change in final purchases. In fact, in the last recession, the only quarterly decline of final purchases (from the fourth quarter of 1960 to the first quarter of 1961) was accompanied by a sharp drop in auto sales. The subsequent upturn was aided by a strong revival in auto buying.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Huge Fishing Net Developed

In order to make the United States fishing industry more competitive with foreign suppliers, the Seattle branch of the United States Bureau of Commercial Fisheries has developed a nylon fishing net 314 feet long. The net is opened and kept afloat by four hydrofoils.

Much large-scale fishing, such as tuna fishing, and also low-value commercial fishing, as for sardines, menhaden, and jack mackerel, is still done by using outdated methods, notably live bait and individual fishing poles. This new fishing equipment is the first real attempt to improve productivity in the fisheries of the Northwest in order to help domestic fishermen compete with lower-cost foreign fisheries.

Dwelling Units Increase

During the 1950's the number of dwelling units in existence in the United States increased from 46.1 million in April, 1950, to 58.5 million in December of 1959. During this same period 15 million new units were built, 1.8 million added through conversion and other sources, and 4.5 million lost.

The impact of this new construction varied among the geographic subdivisions of the nation. Of the 16.3 million units existing in 1959 in the suburban portions of metropolitan areas, approximately 39 percent were built during the 1950-59 period, whereas only 18 percent of the 18.8 million units in the central city were constructed in the same period. Within the central cities of the metropolitan areas, 5 percent of the 16.2 million units existing in 1950 had been demolished by December of 1959, reflecting the impact of urban renewal and redevelopment programs in these areas.

As indicated in the accompanying chart, the largest absolute gain among the four major regions was made by

the South, where 3.8 million units were added. However, the region which showed the biggest percentage gain was the West, with a 42.7 percent increase from its 1950 total of 6.7 million units.

Foreign Travel Levels Off

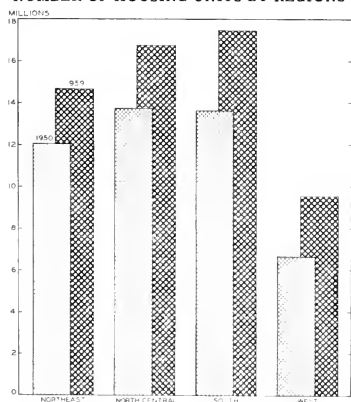
For the first time since World War II foreign travel expenditures by Americans in 1961 did not exceed the previous year's record. Total outlays last year amounted to \$2.6 billion and included \$1.7 billion spent by Americans in foreign countries and \$900 million in fares paid between the United States and foreign countries. During 1961 foreign visitors in the United States spent \$6 million less than the previous year for a total of \$962 million.

Canada, where Americans spent \$412 million, again received a greater share of the United States travel dollar than any other country. Canada and Mexico together accounted for 45 percent of foreign travel expenditures by United States residents. During the same period, travel expenditures by Americans in Europe dropped 9 percent from 1960 to \$609 million.

The major factor in this reduction was the decline in average expenditure per traveler due to shorter duration of visits in Europe. Air travelers, whose visits are characteristically shorter than those of people who go by ship, made up a greater proportion of United States travelers in 1961 than in 1960.

Travel expenditures to Latin American countries (other than Mexico) in 1961 dropped 1 percent from the previous year to \$208 million, primarily as a result of the loss of tourist travel to Cuba. However, tourist traffic to the Western Hemisphere dependencies of European countries rose 6 percent to about \$135 million. An increase of 20 percent in travel expenditures in areas other than Europe and the Western Hemisphere helped bring total travel expenditures even with the previous year.

NUMBER OF HOUSING UNITS BY REGIONS



Source: U.S. Department of Commerce.

More Food Retailing by Discount Houses

A new development in food marketing is taking hold in this country. Food is being sold by discount houses. As the number of these establishments continues to grow, the volume of food sold through their food departments grows at an even greater rate. Trade estimates place food sales by discount houses at an annual rate of \$2.5 billion, about 4 percent of total retail food sales. It is anticipated that these sales will expand to \$10 billion during the next four years. In many discount centers the food department already accounts for 25 percent of the total dollar sales volume.

At present, ownership of discount houses, their methods of operation, and their forms of organization are diverse. Accordingly the type of food department varies. Many of the major supermarket chains are entering this area of marketing by acquiring groups of discount outlets. Some establish food concessions in already existing merchandise discount houses, while others have obtained a limited number of concessions on a trial basis. Operators of food departments in discount centers use mass displays and marked price reductions of certain items. The latter technique, known as loss leader merchandising, has not brought any substantial indication that these departments are being operated at a loss in order to generate traffic and sales for the nonfood departments.

LOCAL ILLINOIS DEVELOPMENTS

Development Appropriation Barred

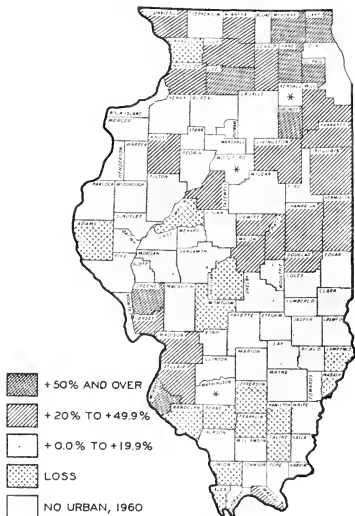
Section 18 of the Illinois Industrial Development Authority Act, adopted by the legislature in 1961, was recently ruled unconstitutional by the Illinois Supreme Court on two counts. The proposed transfer of \$500,000 to the authority to support the issuing of bonds was held to be (1) a pledge of the state's credit for the benefit of private business and (2) a continuing appropriation. The funds were to have been used to acquire and improve sites considered suitable for industry in critical labor surplus areas such as southern Illinois.

The legislation is being studied with the hope that it can be revised and passed again in the 1963 session of the General Assembly. In the meantime the Illinois Board of Economic Development will continue its efforts to assist communities in attracting new industry, with financial assistance available through the federal Area Re-development Administration.

Flood Control Projects Planned

Governor Otto Kerner has released \$250,022 as the state's share of the cost of the Kaskaskia River reservoir project at Carlyle for the 1962 fiscal year. The federal government allocated \$3,185,000 for the project last summer. The state's release brings its total contribution to \$868,524, which amounts to 27.3 percent of the federal appropriation. The 26,000-acre Carlyle reservoir will be the state's largest man-made lake.

URBAN POPULATION CHANGES, 1950 TO 1960



* No basis for comparison; classified as urban in 1960 but not in 1950.
Source: U.S. Bureau of the Census.

Coupled with the federal Carlyle appropriation was a \$250,000 item for further engineering study of a dam site at Shelbyville. The sister reservoirs would provide flood control and water reserves on the Kaskaskia River and would be incorporated in plans to canalize lower portions of the river.

The Rock Island District of the U.S. Army Corps of Engineers will begin work on seven new flood protection projects and one repair project this year with funds also appropriated by Congress last summer. Among these are the Hadley-McCrancy and Kiser Creek diversion projects, part of the big Sny River basin flood control project, which will cost an estimated \$21,400,000.

Governor Kerner on March 21 approved recommendations made by the U.S. Army Engineers' Rivers and Harbors Board for 18 projects for flood control and other water uses in the Illinois River basin. The largest single project involved is the multipurpose Oakley reservoir near Decatur.

One Hundred Years of Crop Reporting

The State-Federal Crop Reporting Service, organized in 1862, is celebrating its 100th anniversary. Its first report issued in 1863 listed the three top crops in Illinois as corn, wheat, and oats and also included tobacco, grass, flax, wool, sorghum, and cotton.

In 1866 the reports, which previously were only on the condition of the crops, began to include the acreage, yield per acre, and production. In that year Illinois farmers produced 143,000 bushels of corn, 34,000 bushels of oats, and 24,000 bushels of wheat. The 1961 production figures for those crops were 638 million, 90 million, and 61 million bushels, respectively. Soybeans, second from the top in 1961, were not grown in Illinois until 1914.

The service now reports statistics on many items, including number of persons living on farms, amount of milk given by cows, pig crop, and wool production. The data are based on reports on production of specific crops by about 30,000 voluntary crop reporters in Illinois, some of whom make reports as many as 40 times a year.

Illinois Census Shows Urban Increases

With more than 10 million inhabitants, according to the 1960 Census, Illinois ranks eleventh among the states in density of population, with 180.2 persons per square mile of land area.

This relatively high density reflects the high proportion of population living in urban areas. In 1960, 81 percent of Illinois residents were classified as urban and 19 percent as rural. Only New Jersey, Rhode Island, California, Massachusetts, and the District of Columbia have larger percentages of their populations living in urban areas.

During the past 60 years the total population of Illinois has increased by 5.25 million. Of this increase, more than 5 million, or 96 percent, occurred in urban areas. Between 1950 and 1960, the proportion of the population classified as urban increased in 173 Illinois counties. Counties showing the greatest increases in the number of people living in urban areas were Monroe (145 percent), Du Page (128 percent), Lake (112 percent), McHenry (89 percent), Greene (81 percent), Lee (70 percent), and Grundy (56 percent).

Losses in urban population occurred in 31 Illinois counties, the majority of which are located in the southern part of the State (see chart).

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1962

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$24,636 ^a	1,413,102 ^a	\$561,681		\$18,417 ^a	\$16,851 ^a
Percentage change from...	Jan., 1962. Feb., 1961	+33.4 -38.6	-1.9 +9.8	-22.6 +12.4	-6 -2	-20.6 +1.7	+1.2 +2.1
NORTHERN ILLINOIS							
Chicago							
Chicago		\$19,941	1,036,372	\$414,005		\$17,013	\$14,460
Percentage change from...	Jan., 1962. Feb., 1961	+46.4 -40.9	-1.0 +9.7	-19.5 +11.7	-6 -2	-21.1 +1.5	+1.8 +1.7
Aurora							
Aurora		\$ 455	n.a.	\$ 9,236		\$ 71	\$ 170
Percentage change from...	Jan., 1962. Feb., 1961	+290.9 +12.9		-29.1 +20.2	-12 -8	-14.5 -3.4	-5.0 -0.8
Elgin							
Elgin		\$ 182	n.a.	\$ 6,170		\$ 46	\$ 143
Percentage change from...	Jan., 1962. Feb., 1961	-7.0 +29.1		-28.8 +28.8	n.a.	-16.2 +2.0	-10.3 +21.3
Joliet							
Joliet		\$ 373	n.a.	\$10,536		\$ 83	\$ 109
Percentage change from...	Jan., 1962. Feb., 1961	+285.1 -46.8		-30.9 +10.3	-9 +2	-19.7 +4.2	-5.9 -2.1
Kankakee							
Kankakee		\$ 315	n.a.	\$ 4,828		n.a.	\$ 70
Percentage change from...	Jan., 1962. Feb., 1961	-64.5 +1,066.6		-36.9 +15.9	n.a.		-10.5 +6.4
Rock Island-Moline							
Rock Island-Moline		\$ 365	30,927	\$10,418		\$ 107 ^b	\$ 206
Percentage change from...	Jan., 1962. Feb., 1961	-44.5 -18.9	-8.1 +4.2	-31.6 +7.9	n.a.	-13.4 -0.1	+13.9 -3.2
Rockford							
Rockford		\$ 531	61,289 ^c	\$19,461		\$ 191	\$ 268
Percentage change from...	Jan., 1962. Feb., 1961	-55.3 -30.1	-4.9 +15.9	-27.2 +17.6	-4 ^c -6 ^c	-11.1 +0.9	-3.3 +0.6
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 365	13,188	\$ 5,859		\$ 96	\$ 133
Percentage change from...	Jan., 1962. Feb., 1961	-43.8 +77.2	+1.1 +15.3	-29.9 +14.9	n.a.	-3.2 +28.0	+10.7 +2.7
Champaign-Urbana							
Champaign-Urbana		\$ 107	17,630	\$ 8,541		\$ 78	\$ 140
Percentage change from...	Jan., 1962. Feb., 1961	-42.9 +24.4	-7.7 +10.8	-33.0 +20.0	n.a.	-15.4 +1.8	+0.2 +14.9
Danville							
Danville		\$ 531	20,165	\$ 5,887		\$ 46	\$ 71
Percentage change from...	Jan., 1962. Feb., 1961	+266.9 +133.9	+1.5 +32.9	-33.0 +13.2	+1 +14	-11.8 +3.1	-9.0 +1.4
Decatur							
Decatur		\$ 583	40,154	\$10,299		\$ 115	\$ 140
Percentage change from...	Jan., 1962. Feb., 1961	+620.7 +191.5	+2.5 +6.3	-32.1 +3.6	0 ^c -1 ^c	-8.4 +6.5	+4.0 +4.9
Galesburg							
Galesburg		\$ 32 ^d	10,546	\$ 4,114		n.a.	\$ 48
Percentage change from...	Jan., 1962. Feb., 1961	-2.2 -46.7	-2.2 +7.6	-34.2 +3.4	n.a.		+18.3 +15.4
Peoria							
Peoria		\$ 240	65,706 ^d	\$17,711		\$ 226	\$ 312
Percentage change from...	Jan., 1962. Feb., 1961	-3.2 -41.2	-3.2 +6.4	-24.6 +27.2	+1 -7	-15.6 +12.9	-3.4 +1.2
Quincy							
Quincy		\$ 152	15,334	\$ 5,033		\$ 50	\$ 75
Percentage change from...	Jan., 1962. Feb., 1961	+208.2 +65.2	-6.3 +12.1	-34.1 +14.2	n.a.	-15.3 +6.3	-8.0 -12.7
Springfield							
Springfield		\$ 182	45,921	\$12,681		\$ 131	\$ 331
Percentage change from...	Jan., 1962. Feb., 1961	-65.9 -89.6	-7.9 +13.7	-32.3 +11.3	+8 -2	-16.9 +8.5	-10.9 +17.8
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 123	17,458	\$ 7,407		\$ 121	\$ 77
Percentage change from...	Jan., 1962. Feb., 1961	+1,657.1 +64.0	-4.1 -4.7	-28.6 +1.6	n.a.	-18.3 -6.7	-16.5 -1.5
Alton							
Alton		\$ 101	25,174	\$ 4,830		\$ 43	\$ 43
Percentage change from...	Jan., 1962. Feb., 1961	+259.8 -82.8	-7.3 +6.8	-30.9 +15.3	n.a.	-12.2 +4.1	+8.7 +6.8
Belleville							
Belleville		\$ 58	13,238	\$ 4,664		n.a.	\$ 56
Percentage change from...	Jan., 1962. Feb., 1961	+152.2 +73.0	-8.4 +2.7	-28.4 +12.6	n.a.		+4.6 +1.5

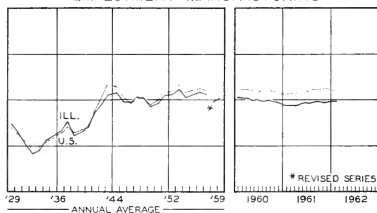
^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. ^d No basis for comparison. n.a. Not available.

Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for January, 1962. Comparisons relate to December, 1961, and January, 1961. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending March 2, 1962, and March 3, 1961.

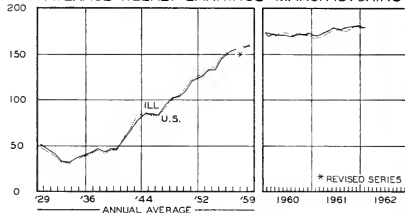
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

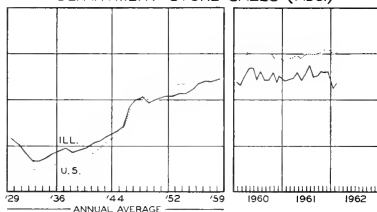
EMPLOYMENT-MANUFACTURING



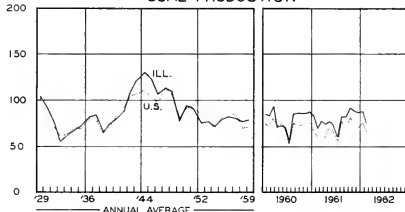
AVERAGE WEEKLY EARNINGS-MANUFACTURING



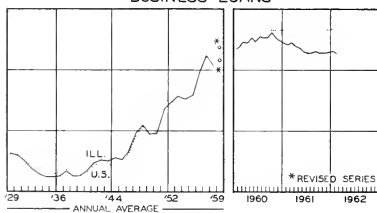
DEPARTMENT STORE SALES (ADJ.)



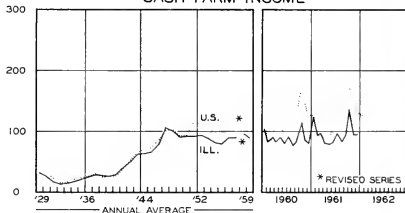
COAL PRODUCTION



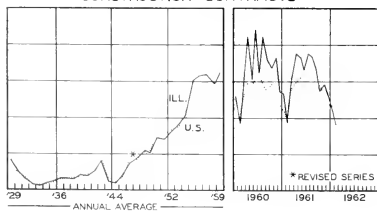
BUSINESS LOANS



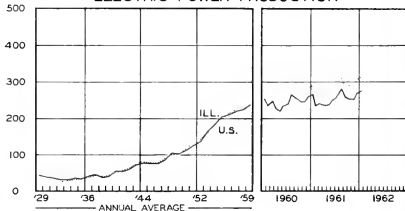
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 19

MAY, 1962

UNIVERSITY OF ILLINOIS

MAY 19 1962

HIGHLIGHTS OF BUSINESS IN APRIL

Although automobile production and sales continued at high levels, other parts of the economy gave less encouraging performances in April. Stock prices continued the decline that began in mid-March, wiping out all the gain made last fall. Production of steel fell from week to week, declining one-sixth to less than 2 million tons a week by the end of the month. This decline reflected liquidation of stockpiles following the wage settlement in March. Paper and paperboard production declined, but petroleum output improved after falling in March. Output of electric power, bituminous coal, and lumber averaged about the same as in March. Railroad carloadings have been increasing about in line with the seasonal pattern. However, the index of industrial production rose 1 point to 117 percent of the 1957 average, and high-level automobile sales helped to raise total retail sales in April to a record \$19.5 billion, after seasonal adjustment.

Construction Steady

The value of new construction put in place during April has been estimated at \$4.5 billion. This was 10 percent more than the revised estimate for March, about the normal seasonal change between March and April. The April figure was 4 percent above the 1961 month.

New private construction expenditures in April amounted to \$3.3 billion, 11 percent more than the revised March figure and 6 percent more than in April, 1961. The rise from March was greater than the normal seasonal increase of 8 percent. Construction of new private non-farm residential buildings accounted for \$1.9 billion of the total, an advance of 17 percent over the revised March figure and substantially more than the 13 percent seasonal gain expected between March and April.

Public expenditures on new construction totaled \$1.2 billion in April. An increase of about 16 percent is normally expected between March and April, but it amounted to only 10 percent this year.

Unemployment Rate Unchanged

The seasonally adjusted rate of unemployment remained at 5.5 percent of the civilian labor force in mid-April, the same rate as the preceding month. The number of unemployed fell to 3.9 million, a seasonal decline of more than 400,000. Total employment rose seasonally about 700,000 to 66.8 million, the highest total for any April. The number unemployed 15 weeks or longer was

estimated at 1.5 million, about the same as in mid-March but down more than 600,000 from the year-earlier figure.

Record Business Sales

Sales of manufacturing and trade firms reached a new high of \$65.3 billion in March, after seasonal adjustment. The increase over February amounted to \$740 million, of which \$380 million was reported by manufacturers, \$330 million by retailers, and \$30 million by wholesalers. The gain in manufacturers' sales was greatest in steel, motor vehicles, and fabricated metals, and raised the total for this segment of the economy to a new high of \$33.2 billion, nearly one-eighth above a year ago. Retail sales, where much of the increase was the result of heavy automobile sales, also reached a new high of \$19.3 billion.

The rate of inventory accumulation slowed in March, largely as a result of the upsurge in automobile sales, which reduced dealers' stocks contrary to the usual seasonal pattern. A reduction in retail inventories of \$150 million partly offset increases of \$380 million in stocks of manufacturers and \$50 million in those of wholesalers. The net advance of \$280 million raised total manufacturing and trade inventories to \$97.0 billion, after seasonal adjustment. Although this was about \$4 billion higher than a year earlier, the stock-sales ratio was 3 percent lower than in March, 1961.

Big Rise in Consumer Debt

In March consumers added, on a seasonally adjusted basis, nearly a half billion dollars to their outstanding short- and intermediate-term obligations, bringing the total at the end of the month to \$55.7 billion. The increase was the largest in many months.

Installment credit accounted for \$269 million of the gain. Automobile paper outstanding was up \$133 million, about the same as in February. Other consumer goods paper rose only \$31 million, but personal loans were \$99 million higher. Repair and modernization loans increased slightly. Total installment debt at the end of March amounted to \$42.7 billion. This was \$1.2 billion more than was outstanding a year earlier. More than two-thirds of the increase over the year took the form of personal loans. Automobile paper was up only \$117 million.

Noninstallment debt of consumers increased \$230 million in March, after seasonal adjustment, raising the total of this type to nearly \$13 billion by the end of the month.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second class mail privileges authorized at Champaign, Illinois.

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The Price of Nothing

Americans are being engulfed in a sea of stamps, not postage stamps but trading stamps. Now that A & P, the last major hold-out in the grocery business, is offering stamps, numerous other types of retailers are rushing into the stamp business, and trading stamps promise to become nearly universal in the field of retailing. Already in some areas, stamps are being given with the sale of such major items as automobiles and houses.

Many reasons have been advanced to account for the spreading popularity of trading stamps. The general explanation is that this is another of those fads, like hula hoops and Yo-yos. Actually, however, more rational explanations exist.

Competitive Aspects

To the retailer in the highly competitive grocery business, any merchandising gimmick that may offer some advantage is worth trying out. To him, trading stamps appeal as a promotional device having the peculiar advantage not only of seeming to offer customers something for nothing, but also of influencing them to come back to him repeatedly in order to obtain more stamps. Unlike price cutting, offering trading stamps cannot be met on an equal basis by competitive stores, except by their offering stamps of a different type. Therefore, an aggressive retailer who offered stamps before his competitors could do so was able to gain some advantage.

To the consumer, trading stamps appeared to possess the magical property of providing something for nothing. Since people had to buy groceries, drugs, and other necessities anyway, receiving stamps that could be exchanged for additional goods seemed like an added bonus, particularly in a period when prices were rising and many consumers were having a difficult time making ends meet.

To be sure, questions have been raised occasionally whether the stamps were indeed free, and whether the cost of the stamps had not been included in the markup on the groceries. However, early studies did suggest that in some areas retailers were able to increase their volume sufficiently to more than offset the cost of the stamps.

Problems of Saturation

Are the same arguments still valid if trading stamps become almost universal, at least for particular types of

stores? Clearly, the answer is no. If all retailers offer trading stamps, they lose much of their effectiveness as a promotional tool. Trading stamps then no longer serve to differentiate one retailer from another, except to the extent that some consumers are obsessed with the desire to collect a particular type of stamp. There is still the possibility that retailers may try to convince consumers that their trading stamps offer more for the money, or more variety, but this is neither a strong nor a generally valid argument. Also, it hardly makes sense for a retailer to spend much of his hard-pressed promotional budget to emphasize the stamps rather than the goods being sold.

About all the retailer can do is to manipulate his trading stamps in connection with other promotional events, such as by offering double stamps or triple stamps on certain days of the week or in connection with the purchase of certain goods. However, tactics of this sort make the stamps much more expensive to the retailer and are easily met by competitors doing likewise.

Experience indicates that trading stamps are a costly item to consumers. For one thing, there is some evidence that stores handling trading stamps do increase their prices somewhat more than stores not handling stamps, though the increase may not be the full 2 percent that a store may require to offset its expenses for these stamps.

In addition, the price at which the consumer trades in stamps for merchandise tends to be well above what would be paid if the same merchandise were bought directly, for two reasons. One reason is that the merchandise available from the stamp companies is invariably national brands. The less publicized regional and so-called private brands are rarely made available, even though they generally sell for less and may possess at least the same quality.

A second reason is that when a consumer redeems his stamps, he does so on the basis of list prices. He has no opportunity to take advantage of discounts or special sales, which are so prevalent these days. For example, in one of the stamp company catalogs, a Smith Corona typewriter requires 25¼ books of 1,200 stamps per book, or \$3,090 of total purchases. The cost of these books to the retailer, and hence their approximate value to the consumer, is roughly \$77, about the same as the \$74-\$78 retail price of the typewriter. However, Smith Corona typewriters are available in many stores at discounts of 25 percent to 30 percent. Hence, if we use a 25 percent discount, the consumer is spending \$77 to obtain a typewriter which he could otherwise obtain for about \$20 less.

The fact remains that trading stamps still have some advantages, though these advantages are rather devious. Thus, to the retailer, trading stamps may still serve as a hidden form of price competition. For the housewife, trading stamps enable her to acquire things she wants painlessly (without her husband's consent) and generally outside the regular household budget. Considering the many disadvantages of trading stamps, however, these would hardly seem to be strong reasons for retaining them. Nevertheless, they may well be retained for many years, because of fear on the part of retailers that giving up the stamps may place them at a competitive disadvantage.

Yet sooner or later, retailers will have to focus on better merchandising if they expect to forge ahead. A principal competitive advantage of the future may well lie with the retailer who has the aggressiveness to give up trading stamps and to show his customers how they are benefiting from the resulting savings. American housewives have enough glue on their tongues.

RF

COSMETICS AND TOILETRIES

The manufacture of beauty aids is one of the oldest of human industries, extending back more than 6,000 years. Nearly every society since has concocted various materials designed to enhance human beauty or appearance, as judged by the standards of the society; the degree of utilization, of course, has differed widely according to cultural norms.

Cosmetics and perfumes generally fell out of vogue in most European countries during the Dark Ages, but slowly returned as Eastern cosmetic practices were brought back by soldiers and pilgrims following the Crusades. Courtiers and their ladies, especially in France and England, used these products lavishly during the 17th and 18th centuries.

The industry developed slowly in this country. Until the turn of the present century, most of the nation's cosmetics were supplied by European plants, the remainder being produced in this country by a few scattered plants selling mostly to a limited clientele. In general, cosmetics were luxuries available chiefly to the wealthy. This situation was suddenly altered directly after World War I. American women, reaping the rewards of increased spending power and of their emancipation from Victorian social conventions, created a vast new market for the beauty culture and beauty products industries. As a result, the luxury of the preceding decade became a commonplace during the 1920's. The demand for cosmetics soared to \$193 million by 1929 and, except for 1947, has climbed every year since 1935.

International Leader

Today, there are more than 750 plants engaged in making cosmetics (including toiletries and perfumes) in about 40 states. Nearly half of these factories are concentrated in three states—New Jersey, New York, and Illinois—which together made five-eighths of the industry shipments of \$1.4 billion in 1960.

Because of the diversity of products and the relatively small amount of capital needed for entry, cosmetics manufacture has been an intensely competitive business. A small producer with only one outstanding article can successfully compete with a corresponding product that may be part of a complete line made by a much larger manufacturer. The competitive position of individual products is largely dependent upon continuous advertising and promotion. Illustrating this is the fact that, although its retail sales failed to rank among the top 50 American industries in 1960, the cosmetics industry was the second largest buyer of national advertising.

Cosmetics reach the public through many outlets. The most important in terms of dollar volume are drugstores, which in 1960 handled approximately \$463 million, or 26 percent of the industry's retail sales of \$1.8 billion. Food stores, the most numerous of the retailers, ranked second with 24 percent and were followed by house-to-house solicitors (21 percent), department stores (17 percent), variety stores (9 percent), and all other stores (3 per-

cent). Especially helpful to the industry has been the vigorous growth of supermarkets, which have been strong sellers of various articles that lend themselves to mass marketing methods. In the period 1951 to 1960, food store sales of toiletries rose 456 percent to \$428 million.

Product Trends

The cosmetics manufacturer, assisted by the expanding arsenal of synthetic organic chemicals available for his formulas, today offers a wide array of products, each having a seemingly infinite range of variations. However, these diverse products, although broadly labeled as "cosmetics," may be reduced to three principal types: cosmetics, such as lipsticks, mascaras, and face powders; perfumes; and toilet preparations, such as shaving creams, dentifrices, and shampoos. The cosmetics group is the predominant one, leading toilet preparations 2 to 1 and perfumes $6\frac{1}{2}$ to 1.

Tooth pastes are easily the industry's most important specific product by both weight and sales. In 1958, more than 112 million pounds were produced at a total value of \$156 million, or more than twice the value of shampoos, the industry's next product. Demand for nearly all cosmetic items have climbed during the postwar period, but the most significant advances have been registered by lipsticks, hair tints, toilet waters, toilet soaps, and deodorants (especially roll-ons). In addition, aerosol shaving preparations, nearly nonexistent in 1947, increased spectacularly to \$30 million by 1960.

Illinois — Third-Ranking State

Illinois, which ranks third among the states in cosmetics production, has tripled its output since 1947. In 1960, the state's 77 plants turned out products valued at an estimated \$180 million, an amount nearly equaling the total of all states lying west of the Mississippi River. Although plants in Illinois average somewhat larger in size today than in 1947, most are still small, a fact also true of the industry nationally. About 70 percent of the plants here employ fewer than 20 persons and the average establishment has about 55 workers, compared with the national average of 40.

Almost every major type of cosmetic is made in Illinois, the principal ones being hair preparations (including shampoos) and dentifrices (including mouth washes and gargles). The State is also an important center for the manufacture of creams, lotions, and shaving preparations.

Cosmetic manufacture in Illinois is paced by Helene Curtis at Chicago, a large complete-line firm that employs about one-third of the 4,500 Illinois cosmetic workers. Among the other large producers, many of which manufacture nationally known brands, are Avon Products at Morton Grove, Lehn and Fink Products at Lincoln, Peppodent Division of Lever Brothers at Bedford Park, Alberto-Culver at Melrose Park, Campana at Batavia, and Consolidated Royal Chemical at Chicago.

KNOW YOUR STATE



Corporate Profits Reach Peak

Corporate profits in the closing quarter of 1961 rose to a record annual rate of \$52.1 billion. This represented an increase of \$5.1 billion over the third quarter, and surpassed the previous high reached in the second quarter of 1959.

For the entire year 1961, profits before taxes, excluding inventory gains and losses due to price changes, totaled \$46.2 billion, some \$900 million above 1960 and within \$200 million of the record established in 1959. Taxes took about half of total corporate profits, leaving after-tax income at \$23.3 billion, compared with \$22.7 billion in 1960 and \$23.7 billion in 1959.

Corporate earnings as a percentage of corporate gross product rebounded vigorously during the last three quarters of 1961, but for the year as a whole the proportion no more than equaled the 1960 figure of 8.9 percent.

Upward Shift in Distribution of Income

The total personal income of families and unattached individuals reached \$397.2 billion in 1961, an increase of 3.5 percent over 1960. The average family income rose \$180 to a total of \$7,020, and has resulted in an upward shift of family units along the income scale. In 1961 the proportion of consumer units earning below \$4,000 declined by 2 percentage points.

The effect of these changes can be seen in the accompanying chart, which shows the percentage of consumer units and of incomes by various classes of income. The largest concentration is found in the income class of \$4,000 to \$6,000, which contains approximately 22 percent of all consumer units. This modal class and the classes below and above it account for almost 60 percent of all the units in the distribution.

With the rise in family personal income and the upward shift of units along the income scale, it is interesting to note the growing percentages in the income classes above \$6,000. Since 1947 the percentages of families

having incomes in these classes increased to 19, 11, 11, and 6 percent respectively. During the same period of time the percentages in the two lowest brackets decreased to 12 and 19 percent respectively.

Working Capital of Corporations Rises

The net working capital of corporations, excluding banks and insurance companies, rose \$8.5 billion to \$141.0 billion at the close of 1961, a 6.4 percent increase over December 31, 1960. This advance in net working capital for the full year of 1961 was 70 percent greater than the increase in 1960 but was slightly lower than that recorded in 1959. During 1961 manufacturing companies accounted for \$4.6 billion, or more than half, of the total increase in net working capital. Retail and wholesale trade firms together reported an increase of about \$2.0 billion and finance companies also reported a rise for the year.

In addition to the \$8.5 billion increase in net working capital last year, \$30.0 billion was invested in plant and equipment and \$1.5 billion in other assets. To finance this \$40.0 billion expansion, \$32.0 billion was obtained from depreciation accruals and retained earnings. External financing provided the balance of the funds needed.

Dividend Payments Increase

During the first quarter of 1962 publicly reported cash dividends amounted to \$3.7 billion, an increase of about 8 percent over the corresponding period in 1961. The increase occurred primarily among financial concerns, where dividends resulting from higher capital gains distributions by mutual funds contributed almost half of the three-months' gain.

The communications and trade groups, as well as the electric and gas utilities, registered moderate gains, whereas railroad dividends fell 4 percent. Manufacturing industries showed both advances and declines in dividend payments, leaving the total for this group about 4 percent above that for the first quarter of 1961.

Residential Vacancies

Residential housing vacancy rates during the first quarter of this year failed to show any change from the last quarter of 1961. During both periods the national rental vacancy rate was 7.7 percent of the total rental inventory, and the homeowner vacancy rate was placed at 1.2 percent of the total homeowner inventory.

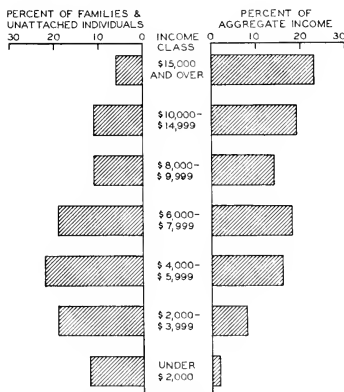
A comparison of the first-quarter rates over the past few years shows the present supply of available vacancies to be unchanged from that registered for the years 1960 and 1961. However, the rental vacancy rate of 7.7 percent for the first quarter of 1962 was significantly higher than the 6.1 percent recorded for 1959.

Motor Freight Tonnage Up

Inter-city motor freight tonnage during 1961 was 2.6 percent higher than in 1960. The monthly volume trailed 1960 early in the year, but exceeded the 1960 results by midyear. During the last quarter traffic improvements of up to 13 percent enabled the over-all freight tonnage carried to show an increase for the year, according to statistics issued by the American Trucking Association.

Freight carriers in eight of the nine geographical regions showed tonnage increases over 1960, ranging from 0.8 percent for motor carriers in the Middle Atlantic region to 9.7 percent for those located in the Southern region. The only decrease recorded was for the Central region, where tonnage dropped 0.5 percent.

DISTRIBUTION OF FAMILY PERSONAL INCOME IN 1961



Source: U.S. Department of Commerce, *Survey of Current Business*, April, 1962, p. 10.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

City Employment and Pay Rates Increase

The number of people employed full-time by municipal governments increased 4.7 percent and the amount spent by these municipalities on their payrolls increased 10.5 percent during the year that ended in October, 1961.

The five largest municipalities in the nation had an average of 115 employees for each 10,000 inhabitants, excluding those city personnel employed by schools and other functions such as health, sanitation, and public welfare services. Municipalities of 50,000 to 100,000 people required only 83 employees per 10,000 inhabitants. Much of this difference was accounted for by the greater number of police employed, which ranged downward from 33 per 10,000 in the five largest metropolitan centers to 17 per 10,000 in the 50,000-100,000 population category. The average salary of government employees in the five largest metropolitan areas was \$479 a month, compared with \$390 a month for those working in municipalities of 50,000 to 100,000 persons.

General Revenue of State Governments Up

The general revenue of state governments rose 4.9 percent in 1961 to a record total of \$28.7 billion. This was 82 percent of all revenue received by state governments, the rest consisting of gross sales from state-operated liquor stores and investment earnings received by employee retirement, unemployment compensation, and other insurance trust systems.

Taxes accounted for 66.5 percent, charges and miscellaneous sources 10.1 percent, and intergovernmental revenue sources 23.4 percent. The general sales and gross receipts taxes were the largest producers of tax revenue, yielding \$4.5 billion, or 23.6 percent of total state tax revenues in 1961, even though this kind of tax did not

exist in 15 states. The next ranking source was individual and corporation income taxes, which reached \$3.6 billion.

During 1961 sales taxes on motor fuel continued their gradual yearly increase, as shown in the chart, rising 3 percent over the previous year to \$3.4 billion. Other sales taxes on such items as tobacco and alcoholic beverages rose 7.6 percent to \$3.1 billion during 1961.

Lag in Jobs for High School Graduates

Of the 1.7 million young people who graduated from high school in June of 1961, about 900,000 entered the labor force. Of this total, 18 percent were unemployed in October, 1961. This unemployment rate exceeded the over-all unemployment rate at that time by 11.2 percentage points. The difficulty encountered by these graduates in obtaining work resulted from the usual obstacles which face young people with little or no work experience and from the weak job market in the fall of 1961. The types of jobs most readily filled were generally clerical for girls and semiskilled or unskilled labor for boys.

The number of persons between 16 and 24 years of age who had quit elementary or high school between January and October of 1961, and entered the labor force totaled 239,000. Their unemployment rate was 9 percentage points greater than that for the high school graduates. This unfavorable position of dropouts is also shown in the type of jobs they obtained—mainly as service workers or farm laborers. Only 10 percent were employed in clerical jobs compared with 40 percent of the graduates.

Poultry Industry More Specialized

The production of poultry and poultry products is becoming highly commercialized and specialized. During the period 1954 through 1959 the sales of eggs and broilers and the number of turkeys raised increased 26 percent, 19 percent, and 84 percent respectively, but the number of farms selling eggs declined 35 percent, those selling broilers declined 16 percent, and the number of farms raising turkeys declined 48 percent.

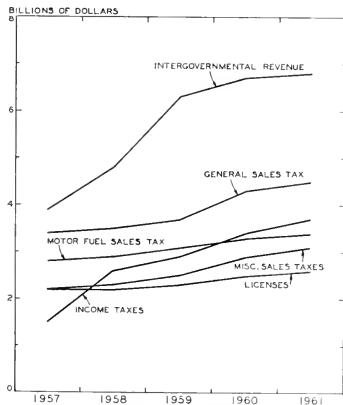
The output of most poultry products is now concentrated in a relatively small number of commercial poultry farms. Of the 1.1 million farms selling eggs in 1959, 54 percent sold less than 800 dozen each and accounted for less than 4 percent of all eggs sold. On the other hand, some 31,000 farms, each selling 20,000 or more dozens of eggs and comprising less than 3 percent of the farms selling eggs, accounted for 52 percent of all eggs sold.

The number of farms reporting broilers sold in 1959 decreased 16 percent from 1954 to 42,000; but the number of broilers sold increased 78 percent to 1,420 million during the period. The same pattern also exists in the raising of turkeys. Of the 88,000 turkey farms, 7 percent raised 96 percent of the 80.4 million turkeys produced in 1959.

Workers' Travel Methods

Private automobiles are by far the most popular means of getting to and from work. Of the 12.6 million persons in the United States who worked during the week preceding the 1960 census, 64 percent were carried to their jobs by automobiles, 8 percent by bus or streetcar, 4 percent by railroad, subway, or elevated, and 2.5 percent by various other vehicular means. However, the second most popular way of getting to work was by walking, done by 10 percent of the workers.

STATE GENERAL REVENUE FROM SELECTED MAJOR SOURCES



Source: U.S. Department of Commerce.



LOCAL ILLINOIS DEVELOPMENTS

Manufacturing Plants in Illinois

More Illinois manufacturing establishments changed their locations during 1961 than in any other year in the history of the State, according to the 1962 edition of the *Illinois Manufacturers Directory*. Almost 66 percent of the 608 plants that moved within the State last year changed addresses within the same city, 33 percent moved to suburbs, and less than 1 percent moved to a different part of the State.

The total number of Illinois manufacturing plants increased to a record 20,940 in 1961, a gain of 3 percent over 1960. The largest number (11,000) were located in Cook County; there were 500 in Kane County, 490 in Winnebago County, 360 in Du Page County, 300 in Lake County, and 250 in Peoria County.

New Campsites for Parks

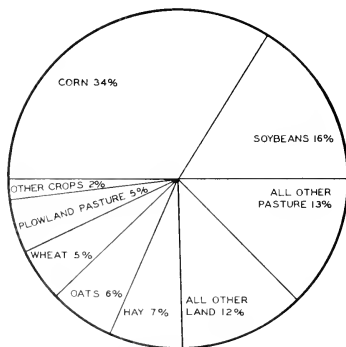
Illinois state parks and memorials attracted nearly 12 million visitors in 1961, an increase of about 3 million over 1960. In the last six years, demands for camping facilities increased 1,200 percent in Illinois, compared with 600 percent nationally.

The State Conservation Department is launching a construction program for new campsites and facilities in 21 of the 48 parks in Illinois with \$1 million appropriated by the legislature for that purpose last summer. Within a short time it is hoped that the new campsites will have gravelled roads, modern sanitary facilities, and electrical outlets for the increasing number of campers who flock to the parks each year.

Employment Expansion Forecast

More than 785,000 jobs will be created in the Chicago Standard Metropolitan Area during the next two decades. According to *Employment in 1980 in Northeastern Illinois*, a report of the Northeastern Illinois Planning Association, area employment will rise by approximately 417,000 in the 1960's and by another 370,000 during the 1970's. The report provides projections by industry designations of employment levels and patterns in the area to 1980.

FARM LAND USE, ILLINOIS, 1960



Source: Illinois Cooperative Crop Reporting Service.

The primary purpose of the study is to provide an economic framework within which various agencies can develop plans for coping with problems of metropolitan area growth. Its findings are already being used in a current project formulating plans for preserving open space for recreation in northeastern Illinois.

Personal Income Rises

A preliminary state breakdown of the record 1961 national personal income by the United States Department of Commerce shows that total personal income for Illinois in 1961 amounted to \$27.3 billion. This was nearly 7 percent of the national total and an increase of 3 percent over the \$26.4 billion for the State in 1960.

Per capita personal income in 1961 was \$2,663 in Illinois, 118 percent of the national average and 2 percent more than the 1960 figure of \$2,613. The increase for the nation was also 2 percent.

Total personal income for the first two months of 1962 in Illinois was \$4.7 billion, an increase of 7 percent from the first two months of 1961 when the state's personal income totaled \$4.4 billion, according to a recent release from *Business Week*. The gain for the nation in the same period was also 7 percent.

Aid Funds Running Short

The Illinois Public Aid Commission has estimated that funds for state public assistance programs during the current biennium will fall short of requirements by \$168 million. About \$102 million of this amount will be needed for the aid to dependent children program, but shortages are also expected in funds for general assistance, disability assistance, blind assistance, and old age assistance.

The Aid Commission has presented a request for the additional funds to the Illinois Budgetary Commission. About \$109 million of the total requested would have to come from state funds, with the rest coming from the federal government. It has been estimated that possibly \$40 million could be raised by the transfer of funds from earmarked accounts to the general revenue funds to meet public assistance needs, but this would still leave a large sum that could only be covered by additional taxes. Both measures would require a special session of the legislature.

Farm Land Utilization

Nearly half of the crop land and over a third of the farm land in Illinois was used for growing corn in 1960. Corn acreage ranged from 43 percent of all farm land in the northeastern part of the State to about 20 percent in the southwestern part. It had varied from 8 million to 9 million acres for many years, but increased sharply to roughly 10 million acres in 1959 and 1960.

Soybeans, the second largest crop, utilized 16 percent of the state's farm land. Soybeans were grown in all counties, but the heaviest concentration was in a belt through the central and south-central parts of the State.

Small grains, hay, and other crops were grown on another 20 percent of the farm land. Wheat was grown principally in the southern half of Illinois and oats in the northern half; alfalfa and red clover, which accounted for the greater part of the state's hay, were grown in all parts of Illinois.

Pasture occupied 18 percent of all Illinois farm land and the remaining 12 percent of farm land was comprised mainly of timberland, farmsteads, idle crop land, and wasteland (see chart).

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1962

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
	Feb., 1962	\$36,700 ^a	1,403,523 ^a	\$527,764 ^a		\$23,486 ^a	\$17,678 ^a
Percentage change from...	Mar., 1961	+49 0 -30 4	-0 7 +10 3	-6 0 +10 3	+39 +4	+27 0 +0 9	+4 9 -0 8
NORTHERN ILLINOIS							
Chicago		\$24,556	1,035,877	\$383,694		\$21,870	\$15,233
Percentage change from...	Feb., 1962	+23 1	-0 0	-7 3	+38	+28 5	+5 3
	Mar., 1961	-37 5	+10 1	+10 7	+4	+10 2	-1 3
Aurora		\$ 1,819	n.a.	\$ 8,750		\$ 89	\$ 162
Percentage change from...	Feb., 1962	+300.2		-5 3	+54	+24 7	+4 6
	Mar., 1961	-18 0		+15 4	-5	+7 4	+3.1
Elgin		\$ 414	n.a.	\$ 5,948		\$ 54	\$ 139
Percentage change from...	Feb., 1962	+127 5		-3 6	n.a.	+18 1	-2 7
	Mar., 1961	-28 1		+13.1		+7 5	+8 5
Joliet		\$ 470	n.a.	\$10,236		\$ 106	\$ 122
Percentage change from...	Feb., 1962	+26 0		-2.8	+44	+27 7	+11.8
	Mar., 1961	+83 6		+21.2	-2	+16 2	+5 0
Kankakee		\$ 273	n.a.	\$ 4,806		n.a.	\$ 82
Percentage change from...	Feb., 1962	-13 3		-0 4	n.a.		+17 9
	Mar., 1961	+187.3		+12 5			-4 3
Rock Island-Moline		\$ 2,388	30,333	\$10,246		\$ 123 ^b	\$ 213
Percentage change from...	Feb., 1962	+555 0	-1 9	-1 7	n.a.	+14 5	+2 1
	Mar., 1961	+137 1	+10 0	+10 3		+6 6	+15 0
Rockford		\$ 1,197	61,086 ^c	\$17,986		\$ 226	\$ 273
Percentage change from...	Feb., 1962	+125.5	-0 3	-7.6	+36 ^c	+18 5	+2 0
	Mar., 1961	-49.7	+12 6	+12 6	-1 ^c	+2 9	+0 3
CENTRAL ILLINOIS							
Bloomington		\$ 450	13,294	\$ 5,717		\$ 97	\$ 157
Percentage change from...	Feb., 1962	+23 3	+0 8	-2 4	n.a.	+1 2	+18 0
	Mar., 1961	-13 4	+21.5	+14.1		+11 3	+5.2
Champaign-Urbana		\$ 629	17,674	\$ 8,739		\$ 91	\$ 141
Percentage change from...	Feb., 1962	+489 7	+0 2	+2.3	n.a.	+16 3	+4.3
	Mar., 1961	-74 4	+14.7	+17.6		+4 8	+6.2
Danville		\$ 347	18,138	\$ 5,604		\$ 54	\$ 77
Percentage change from...	Feb., 1962	-34 6	-10.1	-4 8	+42	+16 0	+0.2
	Mar., 1961	+166 9	+28.3	+15 2	+9	+9 7	+15 4
Decatur		\$ 580	37,088	\$10,897		\$ 133	\$ 117
Percentage change from...	Feb., 1962	-0 4	-7 6	+5 8	+41 ^c	+15 8	-16 0
	Mar., 1961	+249 4	+6 6	+16 6	-9 ^c	+5 8	-12 1
Galesburg		\$ 119	10,610	\$ 3,957		n.a.	\$ 51
Percentage change from...	Feb., 1962	+266 7	+0 6	-3.8	n.a.		+5.1
	Mar., 1961	-71 6	+11.3	+10 8			+10 9
Peoria		\$ 873	63,782 ^c	\$16,439		\$ 266	\$ 323
Percentage change from...	Feb., 1962	+263.5	-2 9	-7.2	+43	+17 8	+3.6
	Mar., 1961	-35.3	+7 9	-17.8	+1	+15.7	+2.5
Quincy		\$ 1,060	14,821	\$ 4,849		\$ 55	\$ 78
Percentage change from...	Feb., 1962	+599.2	-3 3	-3.7	n.a.	+9 7	+4 3
	Mar., 1961	+2,309 1	+14.2	+7.4		+0.2	+0.7
Springfield		\$ 1,176	44,918	\$13,003		\$ 141	\$ 338
Percentage change from...	Feb., 1962	+545.9	-2.2	+2.5	+31 ^c	+7 9	+2 1
	Mar., 1961	+30 3	+12.6	+18.0	-11 ^c	-0.9	-3 9
SOUTHERN ILLINOIS							
East St. Louis		\$ 128	17,101	\$ 7,610		\$ 135	\$ 75
Percentage change from...	Feb., 1962	+3 5	-2 0	+2.7	n.a.	+12 0	-1 9
	Mar., 1961	-60 5	-3.0	+5.7		-8 2	+1.0
Alton		\$ 124	26,342	\$ 4,613		\$ 47	\$ 42
Percentage change from...	Feb., 1962	+22 2	+4 6	-4 5	n.a.	+8 6	-3.3
	Mar., 1961	-77.5	+5 5	+11.4		-1 8	-4.2
Belleville		\$ 103	12,457	\$ 4,670		n.a.	\$ 54
Percentage change from...	Feb., 1962	+77.7	-5 9	+0 1	n.a.		-3 9
	Mar., 1961	-40 1	+12 7	+20 1			+3 1

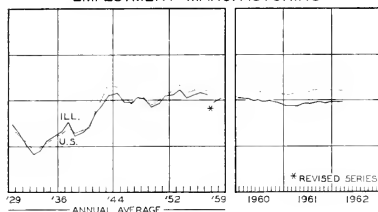
^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.

Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for February, 1962. Comparisons relate to January, 1962, and February, 1961. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending March 30, 1962, and March 31, 1961.

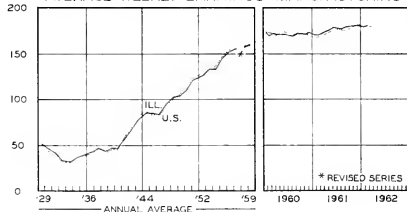
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

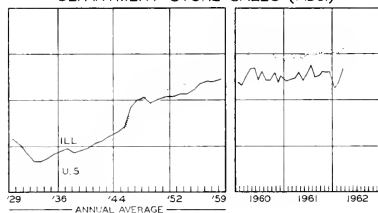
EMPLOYMENT-MANUFACTURING



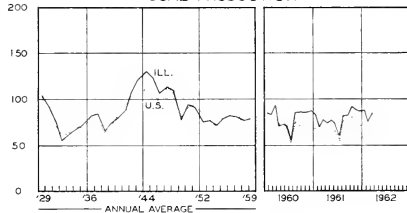
AVERAGE WEEKLY EARNINGS-MANUFACTURING



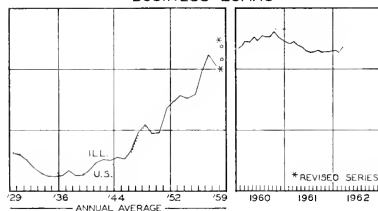
DEPARTMENT STORE SALES (ADJ.)



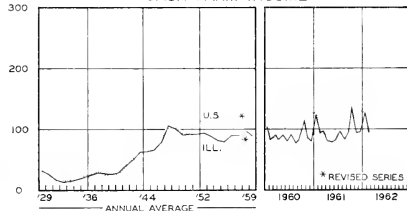
COAL PRODUCTION



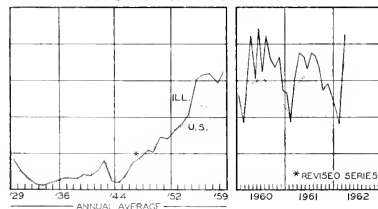
BUSINESS LOANS



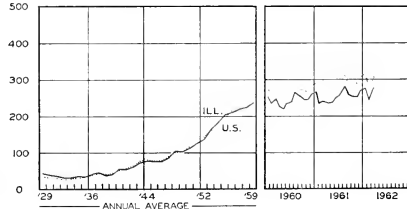
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME 19

JUNE, 1962

NUMBER 6

HIGHLIGHTS OF BUSINESS IN MAY

The decline in stock prices was unquestionably the principal highlight of business in May. After moving down the earlier part of the month in a continuation of the decline that began in mid-March, stocks listed on the New York Stock Exchange took their worst drubbing in years on May 28 when they shrank nearly 6 percent in one day. Subsequently, prices recovered the one-day loss, then fell half way back.

Analysts found it difficult to cite developments in production or distribution to explain the sell-off. In general, other business news was good if not exciting. Only the steel industry reported a sharp drop in output, with average weekly production off nearly a fourth from April. The index of industrial production rose 1 point to 118 percent of the 1957 average. Unemployment declined seasonally between mid-April and mid-May to 3.7 million, and employment rose more than seasonally to 68.2 million. The seasonally adjusted rate of unemployment edged down from 5.5 percent to 5.4 percent.

Construction Expenditures Rise

One of the brighter spots in the economy during May was the construction industry. The estimated value of new construction put in place in the month rose to \$5.2 billion, 13 percent more than the estimate for April. The normal seasonal increase expected between April and May is 11 percent.

The more-than-seasonal rise was the result of a strong expansion in new private construction, which was up 14 percent from April to \$3.8 billion. This increase was appreciably greater than the 10 percent seasonal advance normally expected between April and May. The rise in private construction was due mainly to a sharp increase in construction of new private nonfarm residential buildings, reflecting the unusually large rise in new housing starts in March and April. The total of this type amounted to \$2.3 billion, 18 percent above April, compared with a normal seasonal gain of 12 percent. Public construction also rose during May, but the total of \$1.4 billion was only 11 percent above April instead of the 13 percent normally expected.

Capital Outlays Estimate Steady

Although actual first quarter expenditures on new plant and equipment were slightly lower than had been anticipated by business firms three months ago, the total projected for the year in the May survey remained at

\$37.2 billion, 8 percent above last year and the same amount as was forecast for 1962 in the January-February survey. The May survey raised the estimate for the second quarter to an annual rate of \$36.95 billion, an increase of \$350 million over that anticipated in the January-February survey.

A small decrease in projected capital expenditures for 1962 by manufacturers of durable goods and by public utilities was offset by increases in anticipated outlays by manufacturers of nondurable goods, mining firms, railroads, other transportation companies, and commercial and other enterprises. Within the durable goods manufacturing sector, iron and steel companies revised downward their projected increase in capital spending over 1961 from 31 percent to 7 percent, and automobile manufacturers cut back their plans for a 20 percent rise to a 3 percent increase over last year.

Big Rise in Consumer Debt

The largest monthly advance in two years raised the total of consumer instalment debt outstanding to \$43.3 billion at the end of April. After seasonal adjustment, the increase amounted to \$517 million, of which \$203 million was automobile paper.

Noninstalment debt of consumers rose to \$13.4 billion by the end of April, but adjustment for seasonal influences cut the increase to \$4 million. Expansion of single-payment loans and of service credit was offset by a reduction in charge accounts. Total consumer short- and intermediate-term debt amounted at the end of the month to \$56.7 billion, \$2.9 billion more than a year ago.

Inventory Pace Slows

After increasing in book value an average of \$500 million a month during the first quarter of the year, inventories of manufacturing and trade firms expanded only \$250 million in April, after seasonal adjustment. Of this, \$200 million was attributed to manufacturers and about \$100 million to retailers, offset in part by a decline in wholesalers' inventories. The total of manufacturing and trade stocks at the end of April amounted to \$97.3 billion on an adjusted basis, of which manufacturers held \$56.8 billion, retailers \$26.9 billion, and wholesalers \$13.7 billion.

Sales of manufacturing and trade firms rose about \$1.0 billion to \$66.25 billion after allowance for seasonal factors. About a third of the increase was attributed to each of the three groups.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The Review will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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The Crash of '62

Financial news does not often make front page headlines, but when investors lose billions of dollars in a few days this becomes a matter of widespread concern. During the past three months the Dow-Jones Index of Industrial Stock Market Prices has declined more than 25 percent, the largest such decline in the postwar period. The major part of this decline occurred at the end of May and in the first part of June when stock market prices within a few days fell by roughly 16 percent.

The direct result of this decline is a loss of about \$21 billion in the value of issues listed on the New York Stock Exchange. Losses in holdings of other corporate stocks have undoubtedly been more extensive, in view of the generally greater volatility of these issues.

Whether this decline has run its course remains to be seen, although indications are that the worst is over. In any event, the importance of this development warrants an examination of the factors that may have brought it about and of its consequence for business activity.

Back to Earth

Without doubt the principal cause of the stock market decline is the ironic one of the removal of inflationary fears as a reason for higher prices. It is an ironic reason because investors and business have urged the government for years to do something to prevent rising prices, only to find that when effective action is taken they are among those to be hardest hit.

Actually, prevention of inflation has been the active policy of the present Administration since it took office, but realization of this policy had not been widespread until the President's success in rolling back the recent steel price increase. That action jolted the public into realizing that dollar profits were no longer likely to rise as a result of continuous price increases. This removal of inflation psychology as a factor in stock market growth not only eliminated much of the basis for the present level of stock market prices but also served to remove much of the basis for future increases in stock market prices.

A second major reason for the decline is the lack of vigor in the current business upswing. Industrial production has advanced about 16 percent since the February, 1961, low, compared with a 26 percent increase during the corresponding interval after the 1958 low. Unemploy-

ment, though down appreciably, is still about 5½ percent, and most industries are not operating anywhere near capacity levels.

The result has been growing doubts about the soundness of the present recovery and increasing fears that a new recession may be in the offing, one possibly more severe than any experienced for many years. Such fears help to destroy investor confidence and provide support for the idea that savings are best switched out of common stocks. If a major recession should occur, stock prices would undoubtedly decline much more while the value of a fixed number of dollars would be expected to increase. Furthermore, the fact that stock yields have averaged well below yields obtainable from high-grade bonds and from savings accounts (particularly in savings and loan associations) provides an additional incentive for the safety-conscious investor to switch out of common stocks.

Two technical factors also enter into the recent decline. One factor is margin calls. Although the margin requirements are rather high, 70 percent, they apply only to listed stocks, and even with such stocks there are certain exceptions. In addition, they do not apply to "general purpose" loans, which have not been difficult to obtain from many banks. As a result, when prices decline sharply, increasing demands are made upon investors to put up more collateral, demands which very often lead to sale of the stock.

Second, the capital gains provision of the income tax laws may well have contributed to the decline. Under this law, it pays an investor who is losing money on a recent purchase to sell the stock before six months has elapsed, for short-term losses are fully deductible in figuring income taxes whereas long-term losses are only 50 percent deductible. Hence, once a decline has been under way for some time, selling to take short-term tax losses may be expected.

Implications

It is fashionable to view the current decline as being of little significance from a longer-run point of view. Yet there is little doubt that this decline will of itself have some effect on business activity. Undoubtedly the great majority of the roughly 15 million stockholders in the country have lost money during the past few months, and many of these people may have to curtail spending as a result. To be sure, these curtailments are likely to be primarily of so-called discretionary items, but the over-all result may still be some curtailment in consumer expenditures. On the business side, a certain amount of investment will be postponed, partly because of the loss of income due to curtailed consumer spending and partly because of inability or unwillingness to seek new financing in the security markets.

Perhaps the biggest danger is if business decides not to undertake further capital expenditures in the belief that present facilities are adequate, and that, in any event, it would pay to postpone such expenditures for the future when prices may be lower. If business generally should act on this basis, a major recession would be a real danger.

On the other hand, there are many favorable aspects in the present situation. Construction activity appears to be rising to even higher levels; consumers seem to be spending at record rates, particularly for durable goods; inventories are not excessive; international trade prospects are bright, particularly if the new trade bill is passed by Congress; and the Administration appears to be ready

(Continued on page 6)

SUMMER TOURING IN ILLINOIS

Each spring and summer some 95 million Americans leave their homes for vacations or weekend drives of touring and sightseeing. The steady growth of this army of pleasure-seekers trekking to the nation's leisure spots has made tourism a leading American industry. Last year, the amount spent for touring needs, such as lodging, food, and equipment, reached an estimated \$20 billion.

Tourist Business in Illinois

Although noted primarily for its industry and agriculture, Illinois has steadily grown in stature as a tourist state. Today, it ranks fourth nationally in estimated tourist expenditures, compared with an eleventh place ranking in 1953. Tourism here was an \$800 million business in 1961. Roughly one-third of this amount was spent for food, one-fourth for transportation, one-fifth for lodging accommodations, one-tenth for entertainment, and the remainder for miscellaneous purchases and services.

An estimated 12 million out-of-state visitors spent some vacation time in Illinois during 1961, more than 95 percent of them coming by automobile. In addition, an estimated 6 million Illinoisans enjoyed the numerous historic, scenic, and recreational sites of their home state.

In the Shadow of Lincoln

Although tourists visit Illinois for many reasons, they are mainly attracted by the state's part in the life of Abraham Lincoln, its greatest citizen. More than 15 parks and memorials, including a national memorial highway, trace the footsteps of Lincoln from his entry into Illinois near Lawrenceville as a young man to his departure from Springfield as leader of his country.

Among the most famous and impressive of these shrines is the stately Lincoln Tomb, a beautiful granite and marble structure topped by a 117-foot spire, in Oak Ridge Cemetery at Springfield. Also in Springfield is the only home Lincoln ever owned.

Thousands of tourists are annually attracted to New Salem State Park, a reconstructed pioneer village located 20 miles northwest of Springfield. At this site are 23 buildings authentically furnished as in the 1830's. Near Charleston is a reproduction in Lincoln Log Cabin State Park of the last home of Lincoln's father; the Moore Home, where Lincoln last visited his stepmother before assuming the Presidency; and Shiloh Cemetery, containing the graves of his father and stepmother.

Other cities and villages prominently associated with Lincoln include Vandalia, Mt. Pulaski, Petersburg, Dixon, Galesburg, Bement, Metamora, Beardstown, and Lincoln.

Natural and Historical Attractions

Although Lincolniana is the state's major tourist attraction, Illinois is distinguished by numerous other historical and natural beauty spots. Many of these sites are preserved for public benefit. In all, there are 50 state parks, 30 memorials, and 18 conservation areas scattered throughout Illinois. The widespread and increasing popu-

larity of the state's parks and memorials is demonstrated by the fact that attendance rose to nearly 12 million last year, compared with 5 million in 1949.

Many of the parks and memorials are rich in Illinois history, as well as in scenic attractions. For example, the exploration of early French missionaries is associated with Pere Marquette, near Grafton, named after the first white man to enter what is now Illinois, and Starved Rock, in LaSalle County, believed to be the site of a fort built in 1682 by LaSalle. Forts Kaskaskia, Chartres, and Massac—the latter two now partially restored—tell of the 17th century French settlements here. Black Hawk, Lowden, and Kickapoo State Parks are among the numerous locales which abound in Indian lore.

Other parks are chiefly of scenic interest. These include White Pines, near Oregon, with the southernmost tract of virgin pine in the Midwest; Giant City, near Carbondale, with its huge sandstone formations resembling city blocks and streets cradled in the Illinois foothills of the Ozarks; and Mississippi Palisades, overlooking the Mississippi River near Savanna.

Illinois Recreation

Illinois is a summer playground satisfying many types of recreational interests, ranging from strenuous physical exertion to casual sightseeing.

A large number of tourists and weekend travelers find enjoyment in camping. Fifty of the state parks, memorials, and conservation areas provide space for tent and trailer camping. All of the state camping sites furnish approved water, and many supply stoves and tables. Five state parks—Giant City, Starved Rock, White Pines, Pere Marquette, and Illinois Beach—have overnight lodging and dining facilities. Campers and picnickers may utilize hiking trails in most parks, and horseback riding is possible at several.

Fishing is perhaps the state's most popular participation sport. For the angler, Illinois has 341 fishable streams, 344 public lakes, and numerous well-stocked private lakes. Crab Orchard, the state's largest lake, is among the many Illinois fishing spots which draw fishermen from all parts of the Midwest. Besides fishing, nearly all Illinois lakes and streams are used for swimming, and many have boat-launching facilities.

Tourists are also drawn by numerous special events and colorful local or cultural sights, such as the Illinois and DuQuoin State Fairs with their superb harness racing; the summer stock theaters in many smaller cities; the annual Labor Day powwow of the Sauk and Fox Braves at Black Hawk State Park; and the theaters, operas, music festivals, and professional athletic teams in Chicago.

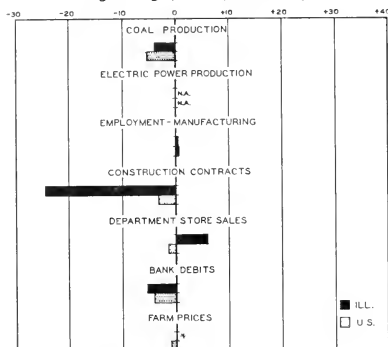
The Land of Lincoln offers many pleasant rewards for both Illinois and out-of-state tourists. The fact that in the last decade many have begun to discover these pleasures may be credited primarily to the successful promotion of the Illinois Information Service, which has conscientiously engaged in "telling and selling" the state's outstanding points of interest.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, March, 1962, to April, 1962



* Not seasonally adjusted. * No change. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Apr. 1962		Percentage change from	
	(1947-49 = 100)	Mar. 1962	Mar. 1962	Apr. 1961
Electric power ¹	248.6	-9.6	+5.7	
Coal production ²	80.7	-4.0	+9.2	
Employment—manufacturing ³	99.7	+0.4	+3.8	
Weekly earnings—manufacturing ³	183.9 ^a	+1.0	+7.0	
Dept. store sales in Chicago ⁴	139.0 ^b	+3.0	+7.8	
Consumer prices in Chicago ⁵	104.8	+0.3	+1.6	
Construction contracts ⁶	319.2	-24.5	-15.9	
Bank debits ⁷	254.2	-5.4	+15.2	
Farm prices ⁸	97.0	0.0	-1.0	
Life insurance sales (ordinary) ⁹	320.4	-6.5	0.0	
Petroleum production ¹⁰	116.3	-5.0	+1.1	

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manage. Assn.; ¹⁰ Ill. Geol. Survey.

^a Data for March, 1962, compared with February, 1962, and March, 1961. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Apr. 1962	Percentage change from	
		Mar. 1962	Apr. 1961
Personal income ¹	438.7 ^a	+0.6	+7.1
Manufacturing ¹			
Sales	403.2 ^a	+1.2	+11.6
Inventories	56.8 ^{a, b}	+0.4	+6.4
New construction activity ¹			
Private residential	22.7	+16.7	+9.0
Private nonresidential	16.8	+3.2	+1.6
Total public	14.9	+10.1	-1.5
Foreign trade ¹			
Merchandise exports	21.8 ^a	+3.7	-6.0
Merchandise imports	16.6 ^a	+13.2	+10.4
Excess of exports	5.2 ^a	-18.4	-36.4
Consumer credit outstanding ²			
Total credit	56.7 ^b	+1.7	+5.4
Installment credit	43.3 ^b	+1.4	+4.1
Business loans ³	37.8 ^b	+0.2	+3.6
Cash farm income ⁴	26.9 ^a	+0.7	-0.7
Indexes (1947-49 = 100)			
Industrial production ⁵			
Combined index	117 ^{a, d}	+0.9	+11.4
Durable manufactures	113 ^{a, d}	+0.9	+14.1
Nondurable manufactures	123 ^{a, d}	+0.8	+7.9
Minerals	102 ^{a, d}	+3.0	+5.1
Manufacturing employment ¹			
Production workers	100 ^{a, e}	+1.0	+5.1
Factory worker earnings ⁴			
Average hours worked	101 ^e	+0.2	+2.8
Average hourly earnings	180 ^e	+0.4	+3.5
Average weekly earnings	182 ^e	+0.7	+6.4
Construction contracts ⁶	339	-3.2	+17.0
Department store sales ⁷	155 ^a	-1.3	+4.7
Consumer price index ¹	105 ^f	+0.2	+1.3
Wholesale prices ⁴			
All commodities	100 ^f	-0.3	-0.1
Farm products	97 ^f	-1.5	+0.3
Foods	100 ^f	-1.3	-0.7
Other	101 ^f	+0.1	-0.2
Farm prices ⁸			
Received by farmers	100	-1.0	+1.0
Paid by farmers	105	+1.0	+2.0
Parity ratio	79 ^g	-1.2	0.0

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for March, 1962, compared with February, 1962, and March, 1961. ⁹ 1957 = 100. ^a Revised. ^b 1957-1959 = 100. ^c Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1962					1961
	May 26	May 19	May 12	May 5	Apr. 28	May 27
Production:						
Bituminous coal (daily avg.)	1,375	1,376	1,361	1,375	1,419	1,365
Electric power by utilities	16,202	16,008	15,445	15,369	15,054	14,390
Motor vehicles (Wards)	180	180	183	175	180	154
Petroleum (daily avg.)	7,279	7,267	7,260	7,290	7,345	7,054
Freight carloadings	88.4	89.2	94.7	97.7	105.0	111.5
Department store sales	580	587	584	587	578	579
Commodity prices, wholesale:	148	156	168	161	153	137
All commodities, 1957-59 = 100	100.2	100.3	100.4	100.3	100.6	100.0 ^a
Other than farm products and foods, 1957-59 = 100	100.9	100.9	100.9	100.9	100.9	100.8 ^a
22 commodities, 1947-49 = 100	82.0	82.7	82.7	81.8	82.4	85.8
Finance:						
Business loans	32,978	33,123	32,910	32,937	32,778	31,586
Failures, industrial and commercial	285	329	310	314	335	368

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for May, 1961.

RECENT ECONOMIC CHANGES

Farm Labor Supply

At the end of April there were 6.8 million persons working on farms. This was almost 12 percent more than a month earlier, but 2 percent less than during the same period in 1961. To a large degree, the increase over the month of March was due to the sustained dry weather in the latter part of April which permitted long days of intense field work. Family workers at the end of the month totaled 5.2 million persons, 2 percent less than a year earlier, and the number of hired workers reached 1.6 million, about the same as a year earlier.

Wholesale Price Index Stable

The wholesale price index fell slightly to 100.4 (1957-59 = 100) in April, bringing it 0.1 percent below the level recorded in April, 1961, and 0.3 percent lower than the March figure this year. Farm product prices dropped for the first time since October, 1961, while processed foods prices continued the downward movement of the previous two months. However, prices of industrial commodities advanced after holding steady in March.

Contraseasonal price declines for fresh vegetables, livestock, and meats, together with seasonal declines for live and processed poultry, fluid milk, and dairy products, were the main reasons for the depressed indexes in farm products and processed foods. Higher gasoline prices accounted for much of the rise in the industrial commodities index, as the warm weather driving season approached and inventories were reduced. Among significant decreases for industrial commodities was the continued decline in iron and steel scrap prices, as steel production edged down and export demand weakened further.

Sugar Industry Quotas Shift

The United States sugar industry, which operates under a quota system that limits, by area, how much sugar can be marketed in the United States each year, has in the last year been authorized an increase in its portion of the quota. The quotas of certain other countries have also been increased in order to take up the slack caused by the elimination of Cuba's sugar quota. Total quota supplies as a percentage of the total, and their distribution by areas of origin, are as follows:

	1948	1959	1961
Domestic beet area.....	24%	24%	27%
Mainland cane	6	6	8
Hawaii.....	10	11	11
Puerto Rico.....	14	10	10
Philippines.....	4	11	14
Cuba.....	41	35	0
Other countries.....	1	3	30
Total.....	100%	100%	100%
Total supplies (000 tons).....	7,098	9,246	9,701

As can be seen from the tabulation, the change in proportionate shares of the various areas between 1948 and 1959 was relatively minor. However, a drastic shift occurred in mid-1960 when sugar imports from Cuba were suspended. Parts of its quota were added to those of Mexico, Peru, the Philippines, and the Dominican Republic. Also, other nations not possessing a sugar quota were allowed to sell sugar in the country. Some of the principal beneficiaries of this new policy have been Brazil, British West Indies-British Guiana, India, and Taiwan.

Retail Sales Up

Total sales of retail stores in April, after adjustment for seasonal variations and trading day differences, amounted to \$19.45 billion, about 1 percent above March and 9 percent above April, 1961.

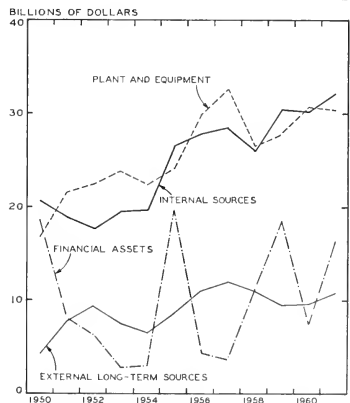
Compared with April, 1961, sales of the food group were down 1 percent and those of the lumber, building, hardware, and farm equipment group dropped 2 percent. Sales of other major groups either stayed the same or increased over the year-earlier month. The biggest percentage gain was recorded by the automotive group, which rose 7 percent from the previous year, followed by the general merchandise group at 5 percent and the apparel group and eating and drinking places at 2 percent. The furniture and appliance group, gasoline service stations, and drug and proprietary stores all stayed the same.

Private Investment Rises Again

Gross private domestic investment rose to a seasonally adjusted annual rate of \$77 billion in the first quarter, a 28 percent increase over the first quarter of 1961, the low point of the last recession. As indicated in the accompanying chart, business investment has been financed principally by an expanded volume of internal funds, though there was also some increase in borrowing by corporate and noncorporate enterprise. These larger requirements of business for capital were partly offset by reduced requirements of governments and by a small increase in personal saving.

This corporate investment and financing pattern is similar to that of other periods of rapid economic advance. As compared with the 12 months ended June, 1957, however, the dollar volume of investment in fixed business capital was off \$1.5 billion, whereas internal funds were up some \$4.0 billion.

SOURCES AND USES OF CORPORATE FUNDS



Source: U.S. Department of Commerce.

Travel to U.S. Increases

The number of overseas visitors to this country during the first quarter of this year increased 13 percent over the number during the same period of last year, according to the United States Travel Service. Altogether there were 98,000 foreign visitors, excluding those from Canada and Mexico, with Europe accounting for 55 percent.

This increase in tourists to the United States may reflect in part the results of an intensified campaign by the USTS to induce more people to visit the United States and thereby help reduce the outflow of gold. Within Europe, where four of the eight USTS promotion offices are located, tourists from France have increased 47 percent over a year ago, followed by gains in visitors from Switzerland (15 percent), England (12 percent), the Netherlands (10 percent), Italy (9 percent), Germany (7 percent), and Sweden (4 percent). Also during this same period visitors from Colombia increased 77 percent, Australia 25 percent, and Brazil 27 percent.

Federal Government Borrowing

During 1961 the federal government ran a deficit on income and product account of about \$4 billion. To cover this deficit and lending operations of \$3 billion, it borrowed \$7 billion net from nonfederal sources.

Since early 1961 these borrowing operations have been influenced by three main objectives: raising short-term interest rates to reverse the foreign drain on gold; keeping long-term rates low to encourage economic growth; and lengthening the maturity of the public debt. Thus, the Treasury has used short-term issues to raise the money needed to finance the deficit and has employed advance refunding techniques in order to push back by 18 to 26 years the maturity of issues due within 10 years.

Compensation in Manufacturing Up

Total compensation of manufacturing employees reached \$97 billion in 1961, of which \$56 billion went to 11.8 million wage earners and \$32 billion to 4.1 million salaried personnel. Fringe benefits such as health insur-

ance, retirement plans, and benevolent funds accounted for the additional \$9 billion.

During the postwar expansion, all three components of total compensation have increased considerably but at sharply differing rates, as shown in the accompanying chart. As a share of total compensation, salaries, almost triple their 1948 total, have increased by about one-third. Fringe benefits have increased nearly five times the 1948 figure and have doubled as a share of total compensation. Earnings of wage workers have increased by three-fourths since 1948, but they have declined relatively.

Inventories of Steel Increase

Inventories of steel mill shapes held by manufacturer consumers are estimated to have increased from 9.4 million short tons at the end of November, 1961, to 12.0 million short tons at the end of March, 1962, according to data obtained by the Census Bureau in a newly initiated monthly survey. Finished steel held by steel-producing plants increased 21 percent to 7.4 million tons, steel in process in mills increased 15 percent to 8.4 million tons during this period, and the quantity of steel held by steel distributors rose 9 percent to 3.5 million tons. As a result, total steel inventories at the end of March amounted to 31.3 million tons, an 18 percent increase over November.

Balance of Payments Improves

The balance of international payments during the first quarter of this year showed considerable improvement over the last quarter of 1961. The adverse balance of payments, after seasonal adjustments, was \$450 million during the first quarter of the year, an improvement of about \$1 billion from the fourth quarter of 1961 and about \$160 million from the average quarterly rate during 1961 as a whole.

The marked improvement in the first quarter of 1962 was due primarily to a readjustment in capital movements, such as the return of very short-term banking funds which had gone out in the last few weeks of 1961, and a decline in the United States dollar balances held by Canada. Merchandise exports, excluding military transactions but including shipments financed by the government through nonmilitary grants and loans or the acceptance of foreign currencies, were about \$100 million less than in the fourth quarter, and imports were slightly higher.

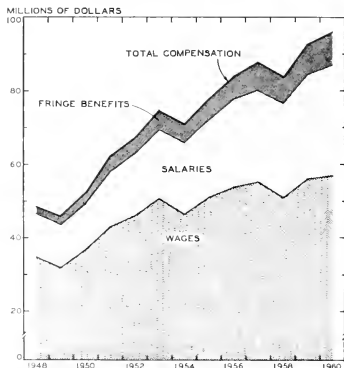
The Crash of '62

(Continued from page 2)

to take a more active role in stimulating business activity should the need arise. Last but not least, the continuance of international crises seems inevitable. Unfortunately as these may be from a social and political point of view, there is little doubt that they provide considerable stimulus for business activity.

All things considered, a major recession in the near future does not seem likely. Given current trends, business activity is likely to move upward for at least another year, unless the recent stock market decline should lead to widespread retrenchment on the part of both consumers and business. For the same reason, the stock market decline is not likely to go much further. The recent plunge has brought prices to much more realistic levels, both with regard to capital earnings and to yields available from bonds and from savings accounts. Moreover, it is by no means clear that the government has managed to halt inflationary pressures. One dam does not stem a tidal wave.

EMPLOYEE COMPENSATION
IN MANUFACTURING



Source: U.S. Department of Commerce.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Farm Population Continues to Decline

The farm population of the United States continues to decline. As of April, 1961, the average number of persons living on farms in rural areas totaled 14,803,000 persons, according to the Bureau of the Census. This was 8.1 percent of the total population and some 830,000 fewer than in the previous year.

However, even with the farm population decreasing, it remains a fairly young population. It has a high proportion of children and teen-aged youths (43 percent being under 20 years of age, compared with 39 percent of the total population) and has a fairly low proportion of young adults and persons of early middle age (with persons 20 to 44 years of age accounting for only 25 percent of the farm population compared with 32 percent of the total population). The low proportion of the latter group reflects the high rates of out-migration that have persisted among young farm adults for the last decade. As a result of this movement, farm persons of late middle age or older considerably outnumber younger adults, a condition that does not exist in the nonfarm population.

Frozen Vegetables Set Pace

The most important item in cold storage today is the frozen vegetable. In the 20-year period extending from 1942 through 1961 the average American has increased his annual consumption of frozen vegetables from seven-tenths of a pound to almost 11 pounds; production of the vegetable-freezing industry has risen from 106 million to 2.2 billion pounds.

On November 1, 1961, vegetables, along with frozen fruits, poultry, orange juice concentrate, and other frozen foods, made up the largest product weight ever stored under refrigeration at one time. During 1961 holdings of frozen foods set a new monthly average high of 5.5 million pounds. This was 11 percent higher than the average monthly level during 1960 and 12 percent greater than the average of the previous five years.

TV in 90 Percent of Households

About 90 percent of the 53 million households in the United States owned one or more television sets in January of this year. This was 2 percentage points more than the percentage recorded in the 1960 census. The proportion of households with two or more sets increased from 11 percent in 1960 to 13 percent this January.

By geographic regions the highest proportion of households with television sets was in the Northeast with 93 percent, followed in order by the North Central with 92 percent, the West with 90 percent, and the South with 85 percent. By size, the proportion of households having a television set was greatest (96 percent) among those with 4 or 5 persons in the household.

As a comparison, the number of households having television sets in 1950 numbered only 5 million; those having radios at that time totaled almost 41 million.

Average Household Size Unchanged

Despite the relatively high level of the birth rate during the past decade, the average size of households has changed little. In 1950 the arithmetic average was 3.37 persons and in 1961 it was 3.36. However, these figures conceal the fact that there has been an increase in the average number of children per household from 1.06 in 1950 to 1.23 in 1961, and a decrease in the average number of adult members (18 and over) per household from 2.31 to 2.13 over the same period.

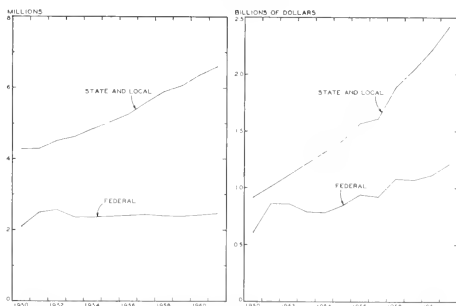
This decline in the number of adults per household has resulted from a variety of influences. As the availability of separate housing has increased, fewer married couples find it necessary to share housing with others. Furthermore, adults other than married couples are now far more likely to be living in their own homes than they were a few years ago. An additional factor is the decline in the proportion of adults who live as lodgers or resident employees.

Government Employment and Payrolls Rise

There were 9.1 million civilian public employees as of the end of October, 1961, 3.3 percent more than the year before. The rise was accounted for mainly by state and local governments, which increased their employment 229,000 to 6.6 million. During the same period of time public payrolls reached \$3.6 billion, 9 percent above the level recorded in the previous year. Of this total, state and local governments accounted for \$2.4 billion, which was the same percentage of the total public payroll as the year before.

As indicated in the accompanying chart, both the number of employees and the monthly payrolls have shown their greatest increases over the last decade at the state and local levels. During this 10-year period, employment of state and local governments (on a full-time equivalent basis) rose by 53 percent, whereas that of the federal government decreased 1 percent. Payrolls of state and local governments during this time advanced 140 percent and those of the federal government increased 41 percent.

PUBLIC EMPLOYMENT AND PAYROLLS,
1950 TO 1961



Source: U.S. Bureau of the Census.

FEDERAL AREA REDEVELOPMENT IN ILLINOIS

HAROLD D. BROWN, *Small Business Administration*

Structural changes in the economies of many local areas throughout the country have given rise to severe problems. These problems include persistently high industrial unemployment and persistently high rural underemployment, with consequent high relief loads, numerous business failures, and reduced local government revenues. Various government agencies and private groups have tried to meet these problems, most often by providing inducements designed to attract new industries to the areas and their communities.

In Illinois a number of local community groups have been organized for this purpose. In addition, the state government has established a Board of Economic Development to assist local areas of chronic unemployment by making economic surveys of their potential resources and by encouraging private industry to locate plants there. The State also created the Illinois Industrial Development Authority to finance the construction of factories in such areas, which were to be leased to industrial firms on attractive terms. However, the Illinois Supreme Court has declared the latter legislation to be contrary to the state constitution.

The Area Redevelopment Administration

With the invalidation of the Illinois Industrial Development Authority, the hopes of the State for government financial assistance that would encourage economic development in the areas of Illinois suffering from chronic unemployment and underemployment have come to center on the federal Area Redevelopment Administration. The legislation establishing this agency, introduced by Senator Paul H. Douglas of Illinois as a part of President Kennedy's program, was enacted into law in May, 1961.

The Area Redevelopment Administration attempts, in a variety of ways, to stimulate economic development in regions experiencing high, chronic industrial unemployment and high, chronic rural underemployment. In some it finances surveys or tests to determine what new uses of resources are economically feasible. For example, in eastern Kentucky, where lumbering has taken up only a little of the unemployment resulting from mining's mechanization, a consulting firm is surveying the prospects of establishing timber-processing industries. In Marion County, West Virginia, near the industrial complex developed at the confluence of the Monongahela and Ohio rivers, an engineering firm is engaged in aerial mapping to determine whether the county's railroad, utility, and natural gas networks warrant attaching the county to the Pittsburgh industrial complex. From the Mesabi range in northern Minnesota, ore has been shipped to the Ruhr for tests to determine whether application of the Krupp process for extracting iron concentrates may regain for the Mesabi ore some of its former eminence in American steel production.

Surveys of the industrial potential of the limestone resources of northwestern Florida, the health resort possibilities of mineral springs in western North Carolina, and the prospects for agricultural modernization of American Samoa represent applications of the ARA program's technical assistance phase in areas of rural underemployment.

But surveys and tests of natural resources will not suffice to attract or hold a modern or expanding industry for a declining community. Adequate municipal facilities

are frequently essential to attract an industry to an area or keep it there. In establishing the Area Redevelopment Administration, Congress authorized it to disburse \$100 million in 3½ percent loans with a maximum duration of 40 years and \$50 million in grants to help needy communities develop the required public facilities. Many are availing themselves of the aid. At Hazleton, Pennsylvania, projected expansion by a trailer manufacturer, a chemical plant, and a bakery in an industrial park was blocked by lack of water until a \$200,000 loan and a \$125,000 grant from the ARA financed the needed works, thereby creating hundreds of jobs in the community. In many other areas, industries which might have stagnated, shut down, or moved elsewhere for lack of adequate community facilities are expanding and creating employment as a result of ARA loans and grants.

The ARA does not operate in isolation, but draws on many sources for help in its technical operations. A component of the Department of Commerce, the ARA operates through the technical divisions of that and other departments and agencies. Its community facilities program is administered largely through the Community Facilities Administration, an affiliate of the Federal Housing Administration. ARA-financed research on wood-working projects is arranged by the Forest Service. The Bureau of Mines determined the merit of the Mesabi-Krupp project. Almost all appropriate technical resources of the federal government are subject to ARA's call.

Industry Loan Program

At the heart of the Area Redevelopment Administration program, however, is the direct establishment or expansion of job-creating industries in areas of chronic industrial unemployment and rural underemployment. For this purpose Congress authorized a revolving fund of \$200 million for loans to community, area, or state agencies, or to private firms and even private individuals, for a maximum of 20 years at 4 percent interest, to set up or to expand industrial enterprises in the industrial and rural areas, with the \$200 million evenly divided between the two.

The test of whether a community or area qualifies for an ARA loan for an industrial enterprise is, first, the rate and persistence of its unemployment or underemployment, and second, the economic feasibility of the projected enterprise, that is, whether it will be able to compete in the market and to provide permanent employment. Areas and communities otherwise qualified for loans are required first to prepare an Overall Economic Development Program. In preparing these Development Programs, the planners in industrial areas draw on the services of the Small Business Administration, an agency long experienced in aiding small business to meet big business competition, and in rural areas on the Department of Agriculture. The SBA not only counsels industrial area authorities on drawing up a Development Program, but processes the applications for all ARA loans that help finance the projects.

Many projects that should provide permanent employment have been approved. Thus, lumbering is replacing mining in Mingo County, West Virginia, but the lumber is processed elsewhere, giving little employment in the area. The Gulf Coast waters off Apalachicola, Florida, teem with fish and shrimp, but the town lacks a processing

plant that could provide employment. Now, thanks to an SBA-processed ARA loan of \$575,000, a woodworking mill is about to start cutting the Mingo County lumber into dimensions for school and church seating, giving employment to 300 workers. A \$652,000 ARA loan is helping establish at Apalachicola a seafood-processing plant, expected to employ 350.

Federal aid for the enterprises in no way detracts from state and local authority over the economic destinies of the areas. Locally planned and initiated, the Development Programs and projects for enterprises must have approval of both local and state authorities before the Area Redevelopment Administration and the Small Business Administration will consider loan applications. The ARA, by law, may finance no more than 65 percent of the cost of a project. In most instances, local investors and state or local development agencies finance the remaining 35 percent, sometimes more, though in some cases, federal agencies other than the ARA also help. To construct the Mingo County woodworking plant, local stockholders subscribed \$200,000 and the West Virginia Development Commission, \$100,000. For the Apalachicola seafood plant, stockholders raised \$250,000, and the Florida Development Commission loaned \$100,000.

Local and area banks, singly or in concert, help substantially in financing. To help develop an electronics plant at Tewksbury, Massachusetts, a Boston bank lent \$147,500; to the sponsors of a lumber-processing plant at Biddeford, Maine, four banks lent \$100,000. Eight small banks joined in a \$125,000 loan to start an apparel plant at Hancock, Maryland. Lenders other than the ARA may

charge, on their share of the financing, any interest rate that is legal and reasonable. Where the enterprise is small, the SBA will also lend funds at the ARA rate of 4 percent interest, as in the case of the Mingo County firm, to which it loaned \$288,000.

The ARA in Illinois

In Illinois, 23 southern counties with persistently high industrial unemployment and 9 rural counties (all but 4 in the south) with persistently high rural underemployment have been designated by the ARA as eligible for redevelopment assistance (see chart). The designation made, the state Board of Economic Development, as to the southern area, drew up an Overall Economic Development Program to qualify it for ARA loans. The study analyzed the area's economy, the reasons for the high unemployment and underemployment, natural resources which might be utilized, the kinds of area financing that might be enlisted toward their development, and the extent of ARA aid needed. This Development Program was approved by the interested communities and the ARA.

Meantime, area agencies, among them the Carbondale and Massac County Industrial Development Corporations and the Rend Lake Conservancy District, surveyed prospective projects. ARA action on three projects ensued. To the City of Carbondale, ARA has loaned \$500,000 to convert a city-owned warehouse for occupancy as a factory by an eastern industrial tape manufacturer expanding into the Midwestern market. The firm's capital and machinery, with the building improvement, will give the enterprise assets of \$1.8 million and create 700 jobs.

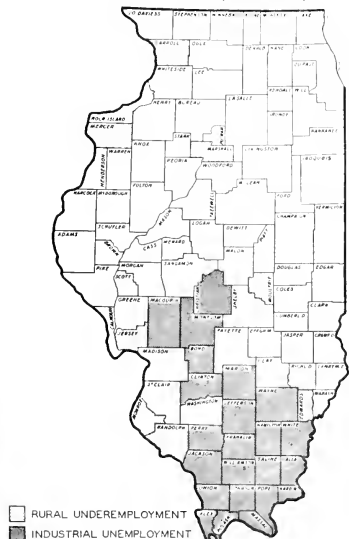
Secretary of Commerce Luther H. Hodges has noted that the ARA loan of \$500,000 induced \$1.3 million of other investment; that the 700 jobs directly generated by this industrial enterprise will, through its "multiplier" effect, account for an additional 280 jobs; that the community's annual payroll will thus increase by \$4.3 million, yielding \$288,000 annually in federal income taxes. Further, Secretary Hodges has pointed out, the increased payrolls will reduce annual unemployment benefit payments by \$343,000 and annual welfare payments by \$98,000, gains recurring year after year from the impetus of a \$500,000 loan from the federal government, which will be repaid with interest.

The Area Redevelopment Administration has also loaned \$139,500 to a glove manufacturer at Metropolis in Massac County. The glove firm is providing \$51,000, the Massac County Industrial Development Corporation \$38,300, and a local bank \$15,500 to finance an expansion that is expected to create 150 jobs.

Dwarfing these projects is the \$35 million project to dam the Big Muddy River between Mount Vernon and Benton. This will create the 25,000 acre Rend Lake, providing a recreation area and water for a projected complex of defense industries. The Illinois legislature has appropriated \$1 million for land acquisition and the Army Corps of Engineers has declared the project feasible. The conservancy district has requested a \$12 million public facilities grant from the ARA to assist in its completion. A plan for joint state, area, and ARA financing will be considered by Congress soon. A similar project that developed Crab Orchard Lake near Herrin in the mid-thirties has since attracted 20 industries providing 5,800 jobs and produced a thriving tourist industry.

On balance, the ARA program promises to increase the contribution of southern Illinois to the state's wealth and income and to reduce its dependence on state revenues, a double gain for Illinois.

REDEVELOPMENT AREAS, APRIL 20, 1962



Source: U.S. Area Redevelopment Administration

LOCAL ILLINOIS DEVELOPMENTS

Employment and Earnings Up

Nonfarm employment in the Chicago area rose to 2,457,000 in April, 24,000 over the previous month and 50,000 more than a year earlier. A large portion of the gain for the month occurred as a result of a strong seasonal spurt in nonmanufacturing industries, such as contract construction, retail trade, and service industries. The monthly gain in manufacturing employment, though smaller, was widespread, indicating a general uptrend in activity.

Both hourly and weekly earnings in manufacturing industries in the Chicago area rose to new highs in March. Average hourly wages reached \$2.63; this along with an increase in the length of the workweek from 40.5 hours in February to 40.9 hours raised average weekly earnings to \$107.42. The previous peak had been \$106.27 reached in December, 1961. Average weekly earnings in manufacturing for the State as a whole were \$105.22 in March, compared with \$104.24 in December.

Industrial Expansion

A number of cities in the State have recently reported major industrial developments. In Joliet the Stepan Chemical Company is building a \$7 million plant to be completed by the end of this year. A plant established in Havana by the Atwood Vacuum Machine Company of Rockford is to begin operations this fall. In Dixon the Danbert Chemical Company will move into its new building, on land leased from the Dixon Industrial Association, by July 15. Initially it will employ about 50 persons. Construction has begun in Rochelle on what is said to be the largest, full-line meat-packing plant to be built in the United States in more than 25 years.

In Chicago, the Zenith Radio Corporation has begun construction of a new \$7 million plant to be completed

this year. Construction of a \$27 million, 40-story apartment building is to be started in June on a lake-front site, with completion scheduled for late 1964. The All-Steel Equipment Company will add 350,000 square feet to its plant in Aurora, an expansion which will increase its payroll by 900 employees. Continental Can Company has begun construction of a new \$700,000 plant in Peoria. Construction will begin soon on a \$1½ million Ralston Purina plant in Vandalia.

The Kaskaskia Industrial Development Corporation has announced that as soon as the canalization of the Kaskaskia River is completed, Kaiser Aluminum, two large coal companies, Continental Grain Company, and two other industries are ready to build new plants, at an estimated total cost of \$200 million. Another anticipated development in the area is a \$132 million installation of the Illinois Power Company. The Central Illinois Public Service Company plans to build a \$125 million generating station southeast of Hillsboro near a new mine to be opened by Consolidation Coal Company. Completion of the first CIPS unit is scheduled for mid-1965.

Machinery Changes Farm Work

An increase in the size of power units, the use of larger power-drawn machinery in multiple or individual units, and shifts toward improved tillage practices have reduced the labor and tractor-hours necessary to produce Illinois crops.

Detailed cost-account studies in central Illinois show that man-hours of labor used per acre for crop production have decreased more than 60 percent in the past 40 years. It required 14.4 man-hours of labor to grow and harvest an acre of corn in 1921-22 in Champaign and Piatt counties; only 4.7 man-hours were needed in the same area in 1959-60.

During the same period, man-hours required to raise an acre of soybeans declined from 13 to 4.4; winter wheat, from 12.3 to 2.6; oats, from 6.7 to 2.5; and hay from 7.3 to 3.2.

While man-hours per acre were being reduced, yields per acre were being increased. From 1921-22 to 1959-60, bushel yields for corn increased from 48.8 per acre to 88.8; for soybeans, from 16.4 to 32.2; for wheat, from 22.8 to 38.8; and for oats, from 32.2 to 63.3.

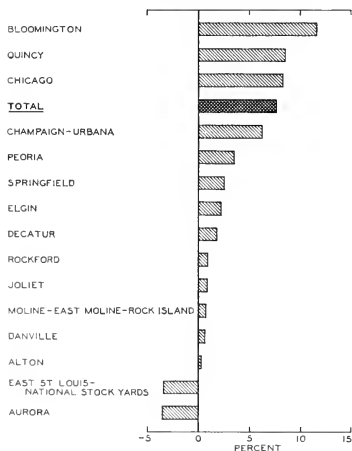
Mechanization, which has caused a decline in farm employment in Illinois, has also required the farm worker to become more skilled. This, in turn, has contributed to an increase in farm wages. In 1961 the average farm wage in the State was \$201 a month, compared with \$146 in 1951.

Bank Debts Total Increases

The total bank debts of 15 major Illinois cities rose to \$247.3 billion in 1961, an increase of 7.7 percent from the 1960 total of \$229.7 billion. Monthly totals during 1961 ranged from a low of \$18.1 billion in February to a high of \$22.3 billion in December, a peak which also exceeded any month during 1960.

The largest percentage gain in bank debts in 1961 occurred in Bloomington, with an increase of 11.6 percent. The cities showing the second and third largest gains were Quincy and Chicago, whose respective increases were 8.5 and 8.2 percent. Champaign-Urbana was next with a gain of 6.2 percent. The only cities where bank debts fell in 1961 were East St. Louis and Aurora, both with decreases approximating 3.5 percent (see chart).

CHANGES IN BANK DEBITS, 1960 TO 1961



Source: Federal Reserve Board.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1962

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
		\$36,222 ^a	1,306,589 ^a	\$607,756 ^a		\$22,227 ^a	\$18,520 ^a
Percentage change from	(Mar., 1962)	-1.3	-6.9	+15.1	+6	-5.4	+4.8
	(Apr., 1961)	-19.9	+7.2	+13.6	+12	+15.2	+6.5
NORTHERN ILLINOIS							
Chicago		\$24,371	948,380	\$436,957		\$20,707	\$16,068
Percentage change from	(Mar., 1962)	-0.8	-8.4	+13.9	+5	-5.3	+5.5
	(Apr., 1961)	-25.0	+7.0	+12.5	+14	+15.7	+6.7
Aurora		\$ 600	n.a.	\$10,739		\$ 81	\$ 182
Percentage change from	(Mar., 1962)	-67.0		+22.7	+12	-9.3	+12.5
	(Apr., 1961)	-19.7		+29.4	+10	+7.3	+8.4
Elgin		\$ 1,302	n.a.	\$ 7,122		\$ 49	\$ 135
Percentage change from	(Mar., 1962)	+24.2		+19.7	n.a.	-9.7	-3.9
	(Apr., 1961)	+24.1		+26.9		-1.9	-6.4
Joliet		\$ 786	n.a.	\$12,030		\$ 90	\$ 137
Percentage change from	(Mar., 1962)	+67.0		+17.5	+13	-14.9	+12.8
	(Apr., 1961)	+62.7		+8.5	+10	+7.3	+18.4
Kankakee		\$ 192	n.a.	\$ 5,843		n.a.	\$ 73
Percentage change from	(Mar., 1962)	-29.6		+21.6	n.a.		-10.8
	(Apr., 1961)	-70.1		+18.4			+7.1
Rock Island-Moline		\$ 1,760	30,171	\$12,055		\$ 116 ^b	\$ 221
Percentage change from	(Mar., 1962)	-26.3	-0.5	+17.7	n.a.	-5.1	+3.7
	(Apr., 1961)	+51.1	+2.5	+12.2		-4.0	+22.0
Rockford		\$ 1,612	57,995 ^c	\$21,726		\$ 198	\$ 287
Percentage change from	(Mar., 1962)	+34.6	-5.1	+30.8	+20 ^c	-12.7	+5.2
	(Apr., 1961)	+91.6	+8.7	+21.9	+6 ^c	+0.9	+7.0
CENTRAL ILLINOIS							
Bloomington		\$ 217	12,520	\$ 6,709		\$ 92	\$ 154
Percentage change from	(Mar., 1962)	-51.8	-5.8	+17.4	n.a.	-5.0	-1.7
	(Apr., 1961)	-69.9	+13.7	+19.7		+15.6	+10.8
Champaign-Urbana		\$ 643	16,861	\$10,149		\$ 86	\$ 146
Percentage change from	(Mar., 1962)	+2.3	-4.6	+16.1	n.a.	-4.9	+3.1
	(Apr., 1961)	+37.4	+9.6	+23.9		+7.0	+0.8
Danville		\$ 157	18,238	\$ 6,763		\$ 53	\$ 81
Percentage change from	(Mar., 1962)	-54.9	+0.6	+30.7	+14	-2.3	+5.3
	(Apr., 1961)	-56.7	+20.0	+12.8	+13	-0.3	-2.3
Decatur		\$ 992	38,105	\$12,468		\$ 125	\$ 138
Percentage change from	(Mar., 1962)	+70.9	+2.7	+14.4	+15 ^c	-5.7	+17.9
	(Apr., 1961)	+81.4	+10.3	+12.9	+5 ^c	+11.5	-0.3
Galesburg		\$ 303	10,013	\$ 4,704		n.a.	\$ 47
Percentage change from	(Mar., 1962)	+154.7	-5.6	+18.9	n.a.		-6.9
	(Apr., 1961)	+54.6	+3.9	+8.0			+3.0
Peoria		\$ 918	63,591 ^c	\$19,533		\$ 250	\$ 299
Percentage change from	(Mar., 1962)	+5.1	-0.3	+18.8	+1	-6.0	-7.4
	(Apr., 1961)	-64.0	+7.2	+19.9	+7	+23.2	+2.3
Quincy		\$ 326	13,993	\$ 5,773		\$ 54	\$ 80
Percentage change from	(Mar., 1962)	-69.2	-5.0	+19.1	n.a.	-0.3	+2.9
	(Apr., 1961)	-12.4	+8.0	+9.9		+17.1	+5.8
Springfield		\$ 1,130	42,572	\$15,309		\$ 140	\$ 290
Percentage change from	(Mar., 1962)	-3.9	-5.2	+17.7	+9 ^c	-1.0	-14.3
	(Apr., 1961)	-53.2	+9.2	+20.7	+7 ^c	+7.9	-4.0
SOUTHERN ILLINOIS							
East St. Louis		\$ 78	16,839	\$ 9,118		\$ 139	\$ 81
Percentage change from	(Mar., 1962)	-38.8	-1.5	+19.8	n.a.	-2.4	+6.9
	(Apr., 1961)	-67.6	-3.4	+4.7		+10.0	+11.2
Alton		\$ 717	24,886	\$ 5,410		\$ 46	\$ 42
Percentage change from	(Mar., 1962)	+477.9	-5.5	+17.3	n.a.	-1.0	+1.3
	(Apr., 1961)	+39.5	+8.7	+8.0		+14.1	+17.1
Belleville		\$ 120	12,425	\$ 5,349		n.a.	\$ 56
Percentage change from	(Mar., 1962)	+15.9	-0.3	+14.5	n.a.		+5.1
	(Apr., 1961)	+18.8	+4.5	+12.4			+12.6

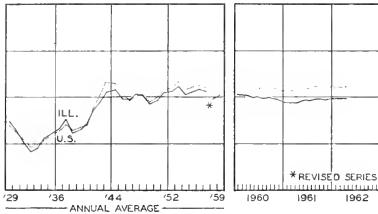
^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.

Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for March, 1962. Comparisons relate to February, 1962, and March, 1961. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending April 27, 1962, and April 28, 1961.

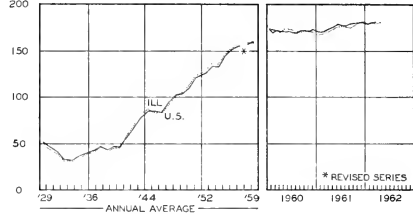
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

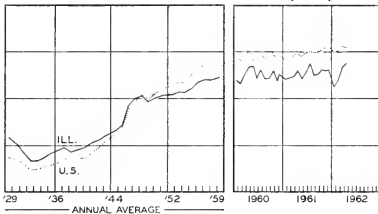
EMPLOYMENT-MANUFACTURING



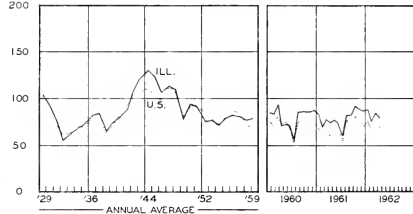
AVERAGE WEEKLY EARNINGS-MANUFACTURING



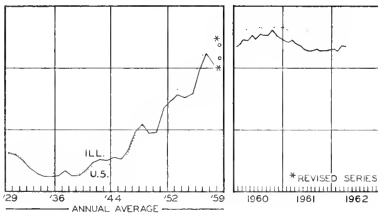
DEPARTMENT STORE SALES (ADJ.)



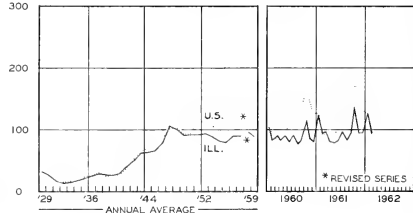
COAL PRODUCTION



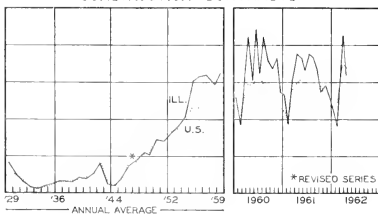
BUSINESS LOANS



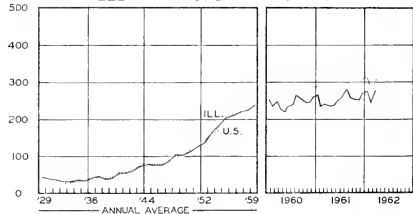
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 19

JULY, 1962

NUMBER 7

HIGHLIGHTS OF BUSINESS IN JUNE

Business activity continued at a high level in June despite concern over the stock market decline, which on June 26 carried industrials to their lowest closing level since October, 1958. The monthly FRB index of industrial production held steady at 118 percent of the 1957 average, and most weekly production series showed little change. However, steel production fell further to about 50 percent of capacity by the end of the month, and the output of automobiles was reduced 16 percent from May to 564,000 units, partly as a result of a strike at a Ford plant that closed down others.

Employment increased 1.3 million to 69.5 million, and unemployment rose 744,000 to near 4.5 million. Both increases were about average for this time of year, reflecting the influx into the labor market of some 2 million teenagers. The seasonally adjusted rate of unemployment returned to 5.5 percent from 5.4 percent in May.

Retail sales fell \$400 million in June to \$19.1 billion, seasonally adjusted. Sales of domestically produced automobiles declined to 610,000 units, a drop of 7 percent from May on a daily-rate basis. Department stores sales were off 6 points from the record May figure to 154 percent of the 1947-49 average.

Construction Continues Up

Construction expenditures gave further support to the economy in June, rising 10 percent to a new peak for the month of \$5.8 billion.

Both private and public construction expanded more than seasonally. Private outlays for new construction amounted to \$4.1 billion, 8 percent above May. Much of this gain was due to a 9 percent advance in spending for private nonfarm residential construction, three times the normal May-to-June percentage increase. Construction of nonresidential buildings also rose 9 percent, primarily as a result of a large advance in commercial buildings.

New public construction expenditures in June totaled \$1.7 billion, 14 percent more than in May. Spending for highways accounted for most of the more-than-seasonal gain, but outlays for nonresidential buildings and for conservation and development were also above normal.

Consumer Debt Continues Rise

Consumers further increased their outstanding short- and intermediate-term debt in May. After seasonal adjustment, instalment debt was up \$413 million from April and noninstalment debt \$210 million. The rise in the

former was mainly in automobile paper and in personal loans, both of which expanded about 1 percent. Charge accounts accounted for most of the increase in noninstalment debt.

The gain in instalment debt was the second largest in two years, exceeded only by the \$517 million increase in April. Total consumer debt at the end of May amounted to \$57.6 billion, nearly \$3.4 billion more than a year earlier.

Inventory Pace Slows Further

Inventory accumulation, characteristic of business upswings, seems to be falling off. The May advance in the book value of stocks held by manufacturing and trade firms, after seasonal adjustment, was the smallest so far this year, amounting to \$170 million compared with \$250 million in April and an average of \$450 million in the first three months of the year. Additions in all industry groups in May were small; manufacturers' stocks rose about \$50 million and retail stocks about \$90 million, while those of wholesalers changed only slightly. The seasonally adjusted total at the end of May was \$97.4 billion.

Sales of manufacturing and trade firms amounted to \$66.4 billion after allowance for seasonal influences, an increase of \$210 million over April. Sales by wholesalers rose \$300 million, but retail sales were down \$110 million and manufacturers' shipments changed little. All of the drop at the retail level was in durables.

New orders received by manufacturers were up about \$100 million from April, after seasonal adjustment; a small decrease in the durable goods industries more than offset a rise in the nondurable goods sector.

Margin Requirements Cut

The Federal Reserve Board reduced margin requirements for stock purchases from 70 percent to 50 percent, effective July 10. As a consequence, buyers of stocks registered on the national securities exchanges will have to put up only half of the purchase price instead of 70 percent, the amount required since July 28, 1960. The board indicated that the reduction took into account a decline of more than 5 percent in June in the amount of bank loans for the purchase of listed securities and the reduction of the speculative psychology that assumed that stock prices would continue to rise steadily because of inflationary pressures.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The Review will be sent free on request.

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Taxes, Recessions, and Growth

Reductions in corporate and individual income taxes have become an increasing possibility in recent weeks. Reasons advanced for such cuts have been twofold. One relates to the danger of a recession, which some people fear may occur by the end of this year. A tax cut, if timed properly, would place additional money in the hands of consumers and business and, presumably, help offset any tendencies to reduce investment or consumer spending.

The second argument advanced for a tax cut is to increase the rate of growth of the economy. In the last few years, the economy has been growing at a much slower rate than in the period just following the end of World War II. With backlogs of demand mostly saturated, new stimuli are needed to boost economic activity. Tax cuts could be one such stimulus, providing business and consumers with additional money which, it is hoped, would raise demand for both consumer and investment goods.

Stopping an Avalanche

How effective are tax cuts likely to be in fulfilling these objectives? With regard to avoiding or mitigating the effects of a possible recession, they are hardly likely to be as effective as much more powerful measures available to the government. This is true essentially for two reasons. First, to judge by past experience, a tax cut will not be initiated unless a recession is already here and cannot take effect until it has been authorized by Congress. As a result, by the time a tax cut does take effect the recession may be well under way and, like a stone in the path of an avalanche, can be of little use in reversing the trend. Indeed, by the time business and consumers obtain the full benefits of the tax cut the recession may be practically over.

Second, in a recession reducing taxes is of little value in either stimulating business investment or in boosting consumer spending. Businessmen are prone to invest in new facilities only when sales are doing well and they are in need of more or better production facilities. When a plant is operating at 50 to 60 percent of capacity, extra profits are much more likely to be deposited in Treasury bonds than to be used to erect new facilities for which no immediate use is foreseen. In poor times, the aim is to conserve cash, not to spend it.

For consumer spending, the paradoxical effect of a tax cut is that the people who most need the money receive none of the benefits. People who are unemployed or retired or are just getting started on their working lives, and who are living on a subsistence level, pay no taxes and hence receive no extra money from a tax cut.

A tax cut will provide other consumers with additional money, but unless the recession is especially severe, much of this money is likely to go into savings. In this respect, it is interesting to note that consumers actually increased their rate of saving throughout the last recession.

If the government wants to take preventive action against an imminent recession, expenditures in the form of public works are likely to be much more effective. Not only can such projects, such as building schools and other public facilities, be initiated quickly, but they serve to place money in the pockets of people most of whom will undoubtedly spend it all. In addition, these activities can be located strategically in the main centers of unemployment, both geographically and industrially, and can help stimulate business activity where it is weakest.

Deficits and Growth

Tax cuts for the purpose of promoting economic growth make more sense, though largely for different reasons. Such cuts provide business firms with additional money partly to offset lowered profit margins in recent years and, hence, provide more capital for investment purposes. However, such capital is more likely to be used when the firm is doing well than when it is doing poorly. Similarly, from a consumer point of view, additional free money, assuming that tax cuts are made more or less across the board, provides on the one hand more money to be channeled into savings and then into investment; and on the other hand provides low-income and middle-income families with additional needed purchasing power.

The manner in which tax cuts are made can be of vital importance for their effectiveness. Tax cuts on business income alone are not likely to be of much help unless business happens to be booming at the time, in which case tax cuts are hardly necessary. As noted before, if sales are not at high levels, the proceeds of a tax cut will end up in Treasury securities rather than in investment. Of course, these proceeds will be used later as the need arises.

This need, however, depends primarily on the purchasing power available to consumers and their willingness to spend. When consumers are spending and sales are high, investment opportunities tend to multiply and capital spending is stimulated. At the same time, funds not spent by consumers are likely, when times are good, to find outlets in the form of investment by business, either directly or through financial intermediaries. Hence, tax cuts on the income of individuals would seem to merit priority. Such reductions, if made at all levels of income, serve to make available more money both for consumer spending and for investment purposes.

Above all, it should be stressed that income tax reduction is likely to be more effective for stimulating economic growth than for coping with the business cycle. Even then, from a monetary point of view the effects of such tax reductions are likely to be unbalancing, particularly in the short run. While the additional dollars made available by the tax cut are being put to use, national income may not grow sufficiently to provide the government with the extra revenues to offset the losses produced by the cut. As a result, unless government expenditures

(Continued on page 8)

MOBILITY FOR THE MASSES

Commercial urban transportation — the transit system — is a product of the industrial age. Before the 19th century, when most cities were small, men lived near their occupations. However, with the arrival of the factory system in the early 1800's, thousands of workers flocked into cities. As populations swelled and homes were established farther from work and business centers, the need grew for a regular mode of cheap mass transportation.

Despite this need, the industry progressed little until late in the 19th century. The first transit carrier, a horse-drawn streetcar on rails, appeared in 1832, and cable and steam-powered coaches were developed after the Civil War. But all of these were relatively inefficient for handling large numbers of passengers. The development of the industry on a large scale began in 1888 with the successful application of electrical power on what became known as the trolley car. Recognizing immediately the potential of this new power, promoters formed numerous electric railway companies in the following three decades, and trackage rose to a peak of 45,000 miles by 1917.

After 1920, the motor bus was put into transit service. Because of its versatility, economy of operation, and lower initial cost, the motor bus shot upward in popularity, its share of total transit traffic rising from 3 percent to 55 percent between 1922 and 1950.

Transportation Giant

In terms of number of passengers carried, the transit industry remains the workhorse of the nation's passenger service business. In 1960, it carried 7.5 billion revenue passengers more than 2.2 billion miles, a passenger volume more than 10 times that of the nation's railroads, intercity buses, and commercial air lines together.

Structurally, any regularly scheduled local commercial passenger carrier may be considered part of this industry. Actually, the various transportation modes narrow to two basic types: motor buses and electric railways (including trolleys, streetcars, and rapid-transit elevated and subway coaches). As has been noted, motor buses are most widely utilized, annually transporting about two-thirds of all transit passengers. Electric railways, on the other hand, account for about four-fifths of the industry's gross investment of \$4 billion, but attract only one-third of all transit operating revenues.

Of the industry's approximately 1,250 transit companies, only about 100 are municipally owned; municipal companies, however, are generally larger, primarily because many are owners of the more expensive rapid-transit systems. However, private transit firms have been relatively more profitable. In 1960, for example, private companies accounted for 63 percent of total industry income while making only 50 percent of total expenditures.

Problems and Trends

Although traffic soared to a high of 23 billion passengers during World War II, the industry has faced a shrinking share of urban passenger traffic since the late

1920's. Until that time, it had been a vigorous and steadily expanding business, but with the sharp rise in automobile use, many of its former markets have been gradually siphoned away. Although transit passenger volume has declined in nearly all cities, losses have been proportionately higher in smaller communities, which in many cases have had to abandon service.

Besides instituting gradual fare increases to offset declining postwar profits, many companies have sought more efficient and economical service and equipment. Among these efforts, for instance, has been the increased use of traffic surveys to bring about closer correspondence of route schedules with passenger traffic patterns. Also, motor bus companies have not only turned toward the less costly diesel and propane gas power, but have acquired larger, more comfortable coaches; almost all new buses delivered today contain 40 or more seats, whereas nearly a third had fewer than 30 seats in 1945. Rail systems, which have purchased no new streetcars since 1952, are today buying only the faster subway and elevated cars.

Illinois Transit Industry

Illinois city dwellers are heavy users of transit facilities. Last year, the industry carried more than 600 million Illinoisans more than 200 million miles. For this service, the state's transit companies received revenues of nearly \$150 million from regularly scheduled routes.

Although Illinois is the fourth-ranking state in total transit income, the industry here has slipped during the postwar period at a faster rate than has been true nationally. Chiefly accounting for this sharp decline was the heavy contraction of service in the large number of Illinois cities between 10,000 and 50,000 population.

Today, 57 companies operate in more than 100 Illinois cities and suburban communities. Except for the municipally owned systems in Pekin and Chicago, all others are private common carriers operating under the jurisdiction of the Illinois Commerce Commission. The largest of the private companies is National City Lines, with operating subsidiaries in 11 Illinois cities.

Towering above all other companies in the State is the giant Chicago Transit Authority. This huge system maintains service not only in Chicago but also within or near 40 suburban communities. Last year, it accounted for more than two-thirds of the 6,000 Illinois transit vehicles, three-fourths of the total transit miles traveled, four-fifths of passenger revenues, and two-thirds of the 20,000 transit employees.

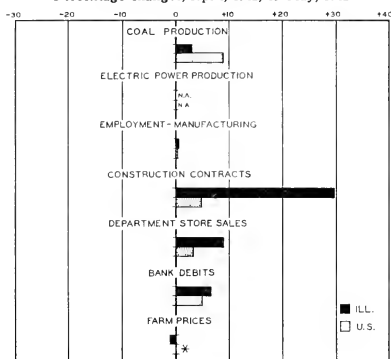
Despite the record of the past decade, the industry's prospects are not entirely gloomy. Although the probability of regaining passenger markets lost to the automobile appears slim, several points favor the industry's future. Among these are the national population growth, the ongoing population shift from rural to urban centers, and finally the fact that the industry will be able to depend on a sizable "core" of passengers finding commercial urban transportation indispensable.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, April, 1962, to May, 1962



* Not seasonally adjusted. * No change. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	May 1962 (1947-49 = 100)	Percentage change from	
		Apr. 1962	May 1961
Electric power ¹	265.1	+ 6.6	+11.7
Coal production ²	83.1	+ 3.0	+ 7.9
Employment—manufacturing ³	100.0 ^a	+ 0.3	+ 2.9
Weekly earnings—manufacturing ³	183.9 ^b	+ 0.1	+ 5.5
Dept. store sales in Chicago ³	133.0	- 4.3	+ 9.9
Consumer prices in Chicago ³	104.6	- 0.2	+ 1.6
Construction contracts ⁶	414.1	+29.7	+13.0
Bank debits ⁷	271.1	+ 6.6	+11.3
Farm prices ⁸	96.0	- 1.0	- 1.0
Life insurance sales (ordinary) ⁹	348.0	+ 8.6	0.0
Petroleum production ¹⁰	119.1	+ 2.4	+ 0.7

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ U.S. Crop Rpts.; ⁹ Life Ins. Agency, Man. Assn.; ¹⁰ Ill. Geol. Survey.
^a Data for April, 1962, compared with March, 1962, and April, 1961.
^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	May 1962	Percentage change from	
		Apr. 1962	May 1961
Annual rate in billion \$			
Personal income ¹	440.0 ^a	+ 0.3	+ 6.5
Manufacturing ¹	402.0 ^a	0.0	+ 8.8
Sales.....	56.7 ^{a, b}	0.0	+ 6.2
Inventories.....			
New construction activity ¹			
Private residential.....	27.4	+18.3	+15.8
Private nonresidential.....	18.1	+ 8.2	+ 2.9
Total public.....	16.9	+10.8	0.0
Foreign trade ¹			
Merchandise exports.....	22.6 ^c	+ 2.0	+10.2
Merchandise imports.....	16.0 ^c	- 3.8	+25.4
Excess of exports.....	6.6 ^c	+19.4	-14.9
Consumer credit outstanding ²			
Total credit.....	57.6 ^b	+ 1.7	+ 6.3
Installment credit.....	43.9 ^b	+ 1.4	+ 5.6
Business loans ²	37.5 ^b	- 0.6	+ 4.3
Cash farm income ³	27.0 ^c	- 8.6	+ 3.7
Indexes (1947-49 = 100)			
Industrial production ²			
Combined index.....	118 ^{a, d}	+ 0.9	+ 9.3
Durable manufactures.....	114 ^{a, d}	0.0	+10.7
Non-durable manufactures.....	123 ^{a, d}	+ 0.8	+ 6.0
Minerals.....	101 ^{a, d}	0.0	+ 4.1
Manufacturing employment ⁴			
Production workers.....	100 ^{a, e}	+ 0.1	+ 4.1
Factory worker earnings ⁴			
Average hours worked.....	102 ^c	+ 0.2	+ 2.0
Average hourly earnings.....	180 ^c	+ 0.4	+ 3.4
Average weekly earnings.....	183 ^c	+ 0.7	+ 5.5
Construction contracts ⁵	352	+ 5.8	+14.5
Department store sales ²	162 ^a	+ 3.2	+12.5
Consumer price index ⁴	105 ^f	0.0	+ 1.3
Wholesale prices ¹			
All commodities.....	100 ^f	- 0.2	+ 0.2
Farm products.....	96 ^f	- 0.7	+ 1.5
Foods.....	100 ^f	- 0.5	- 0.2
Other.....	101 ^f	- 0.1	0.0
Farm prices ³			
Received by farmers.....	100	0.0	+ 0.2
Paid by farmers.....	105	0.0	+ 1.9
Parity ratio.....	79 ^a	0.0	+ 1.3

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b End of month. ^c Data for April, 1962, compared with March, 1962, and April, 1961. ^d 1957 = 100. ^e Revised. ^f 1957-1959 = 100. ^g Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1962					1961
		June 30	June 23	June 16	June 9	June 2	July 1
Production:							
Bituminous coal (daily avg.).....	thous. of short tons.....	1,558	1,583	1,494	1,457	1,374	1,746
Electric power by utilities.....	mil. of kw-hr.....	16,520	16,628	15,991	15,876	15,471	15,183
Motor vehicles (Wards).....	number in thous.....	150	133	176	177	143	153
Petroleum (daily avg.).....	thous. bbl.....	7,260	7,284	7,268	7,197	7,218	6,888
Steel.....	1957-59 = 100.....	80.6	83.9	85.2	84.8	85.1	103.3
Freight carloadings.....	thous. of cars.....	590	593	590	581	531	534
Department store sales.....	1957-59 = 100.....	130	135	156	152	137	125
Commodity prices, wholesale:							
All commodities.....	1957-59 = 100.....	100.1	100.2	100.1	100.0	100.1	99.5 ^a
Other than farm products and foods.....	1957-59 = 100.....	100.8	100.7	100.7	100.7	100.8	100.6 ^a
22 commodities.....	1947-49 = 100.....	81.0	80.9	80.4	80.5	80.6	83.4
Finance:							
Business loans.....	mil. of dol.....	33,354	33,328	32,894	32,791	32,854	31,769
Failures, industrial and commercial.....	number.....	302	265	354	306	280	326

Source: Survey of Current Business, Weekly Supplements.

^a Monthly index for June, 1961.

RECENT ECONOMIC CHANGES

Trade Barriers

Early in March the major trading nations of the West concluded one of the most successful rounds of tariff bargaining since the second World War. This round of bargaining, which was conducted under the provisions of the General Agreement on Tariffs and Trade (GATT), marked the initial participation of the European Common Market in international tariff discussions. In essence, the United States, the European Common Market, and Great Britain agreed to cut tariffs on many industrial products by as much as a fifth over the next several years. In addition, most of these tariff cuts will be extended to the other GATT nations under the long-standing most-favored-nation principle.

In these negotiations the United States agreed to cut its import duties on autos from 8.5 to 6.5 percent in two equal steps while the ECM will reduce its proposed external automobile tariffs from 29 to 22 percent and Britain will lower its import duty on cars from 30 to 22 percent. Significant rate reductions on electrical machinery and equipment, business machines and office equipment, machine tools, textile machinery, and materials handling equipment were also made. The only major industrial category where bargaining failed to produce any important concessions was chemicals.

Inventory and Sales Expectations

Manufacturers expect a continued rise in sales and a slowing in the rate of inventory accumulation in the second and third quarters of this year, according to the United States Department of Commerce.

An over-all sales increase of 2 percent through September is projected. If these expectations are realized, sales will reach new highs of \$100 billion and \$102 billion in the second and third quarters, on a seasonally adjusted basis. Durable goods producers expect a 2 percent rise in deliveries during the second quarter and a 3 percent gain in the third quarter. During the first quarter the increase was 3 percent. Nondurable goods manufacturers look for an advance of only 1 percent in the third quarter as compared with an expected 2 percent rise in the second quarter.

Manufacturers anticipate that their inventory book values will increase \$500 million in the second quarter and \$700 million in the summer quarter as compared with \$1.4 billion in the first quarter. This would bring book values of manufacturers' inventories to \$57.8 billion, seasonally adjusted, at the end of September, as compared with \$56.5 billion at the end of the first quarter. Durable goods producers will account for only one-third of the projected rise in total factory stocks, a considerably smaller proportion than in the past year, while nondurable goods manufacturers plan inventory additions in both quarters of about the same magnitude as the actual increase in the first quarter of 1962.

Corporate Profits Stable

Corporate profits in the first quarter of this year declined slightly to a seasonally adjusted annual rate of \$51.5 billion from the record high of \$52 billion recorded in the last quarter of 1961. However, the total for the first quarter was 29 percent greater than that recorded in the corresponding period a year ago.

The drift in first-quarter profits was mainly accounted for by small declines in the earnings of durable goods

producers and of banks. Bank profits were off mainly because of the higher interest rates being paid this year on savings deposits. The first-quarter decline in the profits of durable goods manufacturers reflected reduced sales of automobiles and accessories. The strongest advance in the durables line was experienced by the primary metals industries, where output was high due to inventory buildup as a hedge against a possible steel strike.

Common Trust Funds Increase

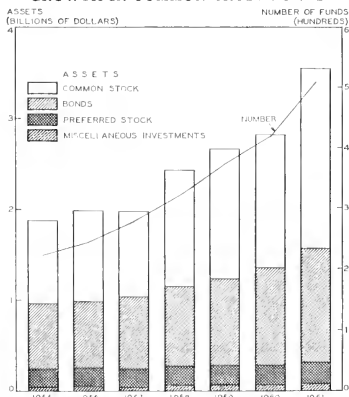
During 1961 common trust funds, defined by the Internal Revenue Code as those funds maintained by a bank or trust company for the collective investment and reinvestment of moneys received through individual trust funds, expanded at a record rate. All three measures of growth — asset holdings, number of funds, and number of banks operating funds — showed increases.

As shown in the accompanying chart, the total assets of these funds rose approximately \$750 million to \$3.6 billion at the end of 1961. This was an increase of 26 percent above 1960. At the same time, the number of fiduciary accounts invested in common trust funds increased by 14 percent to reach 144,000 during 1961. The average participation rose to \$24,600 from \$22,300.

There was a net increase of 90 in the number of common trust funds in operation. This increase resulted from the creation of 85 new ones, the splitting of 7 existing ones, and the merging of 2 into other funds. The market value of holdings in these new funds ranged from only a few thousand dollars to more than \$14 million, the average being \$837,000.

Although most of the common trust funds are operated by the country's larger trust institutions, many relatively smaller banks are demonstrating an increasing awareness of common trust funds as an investment medium for trusts created and used for true fiduciary purposes.

GROWTH IN COMMON TRUST FUNDS



Source: Federal Reserve Board, *Federal Reserve Bulletin*, May, 1962, p. 528.

THE VARIABLE ANNUITY

EMERSON CAMMACK, Assistant Professor of Finance

As regards his economic lifetime, each person faces two possibilities: he may die too soon or he may live too long. That is, he may die and leave behind those who have been dependent on him for support, or he may outlive his ability to earn. The man who comes home from the office farewell party and drops dead across his threshold represents the economic ideal but is very rare. The solution of the problem raised by premature death is found in life insurance. The solution of the problem of living too long is found in money.

A man that reaches retirement with some savings faces the problem of managing the money so it will last the rest of his life. One answer lies in an annuity. An insurance company will guarantee him a fixed monthly income in return for a premium. This premium, typically, is paid in over much of the working lifetime, although it may be paid in a lump sum at retirement age.

Individual annuities are not sold in large volume by life insurance companies. There are just over a million contracts in force. The main factor discouraging their purchase is the vast change in the buying power of the dollar over extended periods.

Purchasing Power and the Annuity

Since 1900, the general price level has increased at a rate of about 2 percent a year. Salaries and wages generally respond to changes in price levels, some more quickly than others. If annuity accumulations are based on a percentage of salary, these upward shifts will be reflected to some extent in the total accumulated for the retirement income. Most annuities bought individually, however, contain no provision for adjustment.

The annuitant likewise suffers during the pay-out period of the annuity. A familiar ad shows a happy elderly couple basking in the Florida sunshine inviting us to clip the coupon "to learn how we retired on \$200 a month in just 10 years!" When it first appeared years ago the question that arose in the reader's mind was "How did they *get* \$200 a month?" Now the question is "How can they *live* on \$200 a month?" Annuity payments, like other long-term fixed-dollar contracts, do not change in response to changes in price levels. The annuitant may retire with an adequate life income promised him, only to have inflation render it inadequate.

The dotted line in the chart shows what happened to a man who was 35 in 1900 and who began annual accumulations in order to buy an annuity to begin in 1930, when he would be 65. The figures show how far the annuity payments he received over 30 years of retirement fall short of constant purchasing power. Because of the rise in prices during the first 30 years of the century, his annuity that begins in 1930 is already 24 percent below an ideal annuity of constant buying power. The payment comes closest to the ideal in 1933, the depth of the Great Depression, but by 1960 has fallen to less than half the constant amount of buying power. Declines in the value of the dollar pose a grave problem to every annuitant.

The Unit Annuity

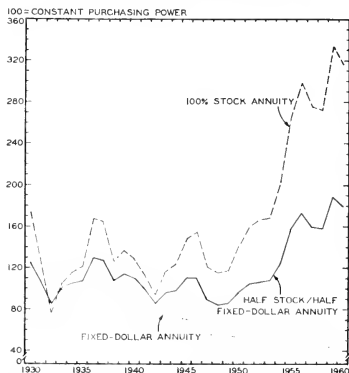
In 1918 the Teachers Insurance and Annuity Association (TIAA) was formed to provide college teachers with low-cost life insurance in its broadest sense: retirement income as well as death protection. About 1950, TIAA began a series of investigations to seek a better solution

to the problem of providing retirement income, one less subject to the swings in the cost of living. The report by William C. Greenough, *A New Approach to Retirement Income*, presented a well worked out proposal for a new type of annuity, a unit annuity, as opposed to the dollar annuity that had been in use from the earliest days of insurance in this country.

In the dollar annuity, the annual premium paid in the years preceding retirement is placed by the insurance company in fixed-dollar investments (bonds, mortgages, real estate). Interest earnings are credited to the account, and at retirement this total accumulation is used to buy a guaranteed fixed-dollar monthly income for the life of the annuitant.

In the unit annuity, as in the fixed-dollar annuity, the annual premium is a fixed number of dollars. Here, however, the similarity ends. The annual payments are credited to the account of the participant not in dollars but in "units." It is as if a new kind of money had been invented for the purpose of calculating every aspect relating to this annuity. The rate of exchange between dollars and units is found by dividing the market value of the company's entire investment portfolio by the total number of units it represents. Each unit is in effect a microscopic cross section of the entire investment portfolio. Obviously, the value of the unit will fluctuate with changes in the value of the investments in the portfolio. It is part of the proposal that the fund be invested only in common stocks. When the stock market goes up, each unit will be worth more, and the dollar premium paid by the annuitant will buy fewer units. When the market falls, the annuitant will buy more units with his fixed-dollar premium.

PURCHASING POWER OF FIXED AND VARIABLE ANNUITY PLANS*



* Bought over 30 years (1900-30) compared with an ideal annuity that adjusts perfectly for cost of living changes.

Source: Adapted from William Freund, "The Status and Prospects of Variable Annuities," *Journal of Finance*, May, 1962.

For example, assume that on January 1, 1960, the value of the unit is \$10. A participant paying \$100 into the company in January (under the terms of his annuity contract) would be credited with 10 units. If by January, 1961, the stock market has moved up, a unit may be worth, say, \$12.50. The participant's annual premium at that time buys only 8 units. If by January, 1962, the stock market has declined and each unit is worth, say, only \$8, the \$100 premium in 1962 buys 12.5 units. Dividends received or capital gains are converted into units and are added to the account of each participant.

When the annuitant reaches age 65, he has, let us assume, 1,500 units in his account. Suppose the actuaries of the company calculate that he can be paid 10 units a month for life. If, for example, the unit is worth \$20 the first month, the annuitant gets a check for \$200. During the pay-out period, the monthly payments are determined by the investment success of the insurance company. The annuitant is assured only that he will receive the dollar value of 10 units for each month as long as he lives.

It must be emphasized that although one of the important objectives of the unit annuity is to maintain the buying power of the annuitant, the results are not geared to any index of buying power, but are determined solely by the results of the insurance company's investments. Because the annuity payments vary in this manner, this plan usually is referred to as a variable annuity.

The Variable Annuity Is Born

In preparing to launch the variable annuity program for college teachers, TIAA made an extensive study of the movements of price levels, stock prices, investment yields, wages, and other economic factors from 1880 to 1950. The conclusion reached was that the best hope for a retirement plan to maintain the buying power of the annuitant would be a mixed annuity in which no more than half of the annual purchase premium is put in the common stock fund whereas the other half is used to accumulate a fixed-dollar annuity in the usual time-tested way. The reason for this is that a common stock fund by itself would have resulted in sharply depressed payments in the period 1930 to 1934, when the presence of the fixed element would have bolstered the annuity payments.

This effect would be most apparent to an annuitant who had been accumulating only for a relatively few years. For instance, a man who put \$100 a year into an annuity accumulation from 1927 to 1932 would have had by 1932 a fixed-dollar fund of \$557. Had he been buying a variable annuity, he would have had a common stock fund of \$215. A half-fixed-half-stock fund would have been worth \$386. These would have represented, respectively, 119 percent, 46 percent, and 83 percent of the amount required to maintain constant purchasing power.

The solid and dash lines of the chart show, however, that if the annuity is accumulated over a longer period (and most annuities will be) the advantage of the mixed annuity is less pronounced. Payments of \$100 a year from 1902 to 1932 would have resulted in the accumulation of a fixed-dollar amount of \$6,545, a stock fund of \$4,907, or a mixed half-and-half fund of \$5,726. The purchasing power comparisons would have been 97 percent, 73 percent, and 85 percent respectively. It should be noted that 1932 was the worst terminal point for the accumulation period of an annuity so far this century.

If the accumulation period had extended from 1920 to 1950, the TIAA study shows that the fixed-dollar fund

would have been \$5,359, the stock fund would have been \$11,001, and the mixed fund, \$8,180. The purchasing power comparisons were 70 percent, 144 percent, and 107 percent respectively.

If stock prices go up, the 100 percent stock fund is superior. If stock prices go down, the fixed-dollar fund is best. The conclusion of the TIAA study was that a fifty-fifty division provides the best protection against fluctuations in buying power. The superior performance shown in this century by the stock funds as compared with the fixed-return investment funds not only shows the ability of the variable annuity to maintain the purchasing power of retired persons, but also shows that it would have helped maintain the standard of living of annuitants. The use of the variable annuity gives retired persons a chance to participate in the rising standard of living of the country so far as it is reflected in rising stock prices.

In 1952, special legislation was passed by the New York legislature to create the College Retirement Equities Fund (CREF). It is under the same management as TIAA. It issued its first certificate on July 1, 1952. Since that time over 90,000 teachers have become holders of variable annuity contracts, and about 1,400 have retired and are receiving variable annuity payments.

The initial accumulation unit was valued at \$10. This rose to a high of \$32.45 in November, 1961, and has since fallen to \$25.11 at the end of May, 1962.

The annuity year runs from May through the following April. If an annuitant had been 65 on July 1, 1952, and had been permitted to buy an immediate annuity with a lump sum large enough to provide a TIAA (fixed-dollar) annuity of \$100 a month, and a similar lump sum had been given to CREF, the total monthly annuity would have risen to \$317 a month by May, 1956. The monthly payments would have reached a peak of \$411 for the annuity year beginning May, 1961, and would have been \$410 a month beginning in May, 1962. This 1962 annuity payment represents a 91 percent increase over the 1952 payment, whereas consumer prices are only about 13 percent higher. TIAA-CREF is quick to emphasize, however, that

no one should jump to the conclusion that a TIAA-CREF income will always grow as fast as or faster than consumer prices. There is no panacea. However, this ten-year experience shows that by participating in CREF, the retirement part of an educator's compensation is made much more responsive to changes in the economy as these are reflected in common stock performance.

Variable Annuities for All?

Few persons are eligible to buy variable annuities today. Following the establishment of CREF in 1952, the first commercial company formed to write the variable annuity was chartered in Little Rock, Arkansas, the Participating Annuity Life Insurance Company. In March, 1955, the Prudential Insurance Company of America (Newark, New Jersey) requested permission of the New Jersey legislature to write variable annuities. After three unsuccessful attempts, enabling legislation was passed in 1959.

Meanwhile, two companies were formed in the District of Columbia to write variable annuities: the Variable Annuity Life Insurance Company (December, 1955) and the Equity Annuity Life Insurance Company (July, 1956). Almost before the companies' charters had been granted, the United States Securities and Exchange Commission secured injunctions to prohibit sales by the companies

until they had complied with the security-registration provisions of the securities acts. In March, 1959, the United States Supreme Court reversed a lower court decision and held that the two Washington companies did not deserve the exemption from SEC regulation that the federal statutes give "insurance companies."

The Prudential has filed for exemption from the Investment Company Act of 1940. However, it is by no means certain that the exemption will be granted. Even if SEC approval is obtained, there remains the problem of qualifying the variable annuity with insurance regulatory authorities of the states. The District of Columbia companies have been admitted to do business in Alabama, Arkansas, the District of Columbia, Florida, Kentucky, New Mexico, North Dakota, Ohio, West Virginia, and Wyoming.

The most important state, New York, has not yet acted. The importance of New York in the regulation of insurance lies not only in the financial importance of the New York market, but also in the operation of the so-called Appleton Rule. This rule, enacted formally into the New York Insurance Code in 1939, requires insurance companies admitted to do business in New York to obey New York rules not only on business written in New York, but also on business written anywhere else. Even though the SEC hurdle is vaulted, the refusal of permission by the New York department would spell the end of the Prudential's hopes to write the variable annuity. If it has to choose between writing the variable annuity and continuing to write any life insurance business in New York State, the Prudential, obviously, would prefer to remain in the New York market and forget the variable annuity. The objection of the New York department, however, does not constitute a major road block to the District of Columbia companies, which are primarily in the variable annuity business and only secondarily in the business of writing other life insurance products.

An Economic Problem

Aside from the difficulty that most people are not yet permitted to buy variable annuities, there seem to be two principal kinds of problems—the economic and the psychological.

The economic problem arises because the investment of retirement accumulations in common stocks is not a perfect hedge against fluctuations in the cost of living. As noted earlier, if the stock market goes up, the variable annuity is best. If the stock market goes down, the fixed-dollar annuity is best. The TIAA-CREF system of the combined annuity attempts to split the difference.

Studies have shown that from 1871 to 1959 investors in the stock market have averaged about 5 percent a year in dividend returns and about half that much in price appreciation (N. Molodovsky, "Stock Values and Stock Prices," *Financial Analysts Journal*, March-April, 1960). During that period stock prices have risen a little faster than the cost of living. In short periods, however, the cost of living and stock prices have moved in opposite directions at times, with the stock market making wider swings than has the cost of living.

The accumulation of retirement funds, however, proceeds over a relatively long period of time, and it makes relatively little difference what the level of stock prices may be when the program is begun or when it is ended. For example, from May, 1946, to May, 1947, common stock prices fell 23 percent, whereas the cost of living advanced 19 percent. Yet an accumulation over the preceding 30 years in a stock fund still would be 25

percent above a constant purchasing power fund, whereas a fixed-dollar accumulation would have been more than 25 percent below.

Molodovsky's study of the stock market showed a close parallel between the average annual increase of 2.5 percent in stock prices and the annual growth in earnings and dividends. The strenuous efforts of the government to promote economic growth, as well as the large and ever growing mechanism to fight depressions, point to the likelihood of continual growth in stock prices even if fiscal policies likely to promote inflation are not present. This persistent, though occasionally interrupted, growth seems to show that the variable annuity deserves a place in retirement planning.

The similarity in the working of the accumulation period under a variable annuity to dollar averaging plans of stock accumulation is obvious. It should be noted, however, that the use of the variable principle in the pay-out period is possible only under an insurance arrangement. The insurance element enters because of the guarantee of the lifetime income. This cannot be accomplished in any other way. Only an annuity can assure that the retired person cannot outlive his income.

The variable annuity will not guarantee the dollar amount of the income, but it will guarantee the dollar equivalent of a guaranteed number of units for the life of the annuitant. The variable annuity not only offers a partial hedge against changes in the cost of living, but at the same time gives the annuitant a chance to participate in the growth of the economy with the growth in the standard of living that goes with it.

A Psychological Problem

A psychological objection to the variable annuity arises when the exact nature of the contract is not understood by the participant. The president of the world's largest life insurance company summed up his objection by saying: "I don't want to be answering letters from policyholders which say, 'Last year you paid me \$100 a week. Now you're only paying me \$80 a week. How come?'"

Because of the recent decline in the stock market, the annuitants of the Variable Annuity Life Insurance Company got a June check for 14 percent less than they got last January. An official of that company said: "So far, there have been no kicks from recipients; they realize that stock prices can go down as well as up." CREF annuitants were not affected since, as explained earlier, its annuities are calculated only once a year and remain unchanged throughout a 12-month period. Eventually, this decline will affect the size of annuities if the portfolio does not fully recover from the price decline. It seems that the chance for misunderstanding (or misrepresentation) is no greater here than in connection with other products sold by life insurance companies.

Taxes, Recessions, and Growth

(Continued from page 2)

are reduced sharply, which is hardly likely, substantial deficits will accompany tax reductions.

In time the growth in national income made possible by the tax reduction ought to produce additional revenues to bring the budget back into balance, and possibly produce healthy surpluses as well. At best, it is a calculated risk, but this country would not have reached its current high position without taking risks of this sort. RF

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

State Retirement Systems Grow

Retirement protection applied to nearly all full-time employees of state and local governments and to a considerable number of their part-time employees, according to the 1957 Census of Governments. The most widespread form of coverage was through retirement systems administered by these governments, which reported receipts of nearly \$2.5 billion for 1957, and financial assets totaling \$12.8 billion. By 1961 annual receipts had risen to \$3.7 billion and total financial assets to \$20.9 billion. This growth indicates a continuance of previous trends, as indicated in the accompanying chart.

One notable development in recent years has been the marked shift of retirement system investments toward nongovernmental securities. This trend continued in 1961 with the increased holdings of nongovernmental securities accounting for all but \$147 million of the \$2.3 billion rise in the total financial assets of these retirement systems. At the end of fiscal 1961 nongovernmental securities made up nearly half of the total financial assets.

First and Second Generation Americans

The number of United States residents of foreign stock (persons either foreign born or native born of foreign or mixed foreign and native parentage) was 34 million in 1960. Of this total, 9.7 million were foreign born and 24.3 million were of native birth with one or both parents foreign born.

The country of origin having the largest group of first and second generation persons of foreign stock was

Italy with 4.5 million, followed by Germany with 4.3 million, Canada with 3.2 million, the United Kingdom with 2.9 million, Poland with 2.8 million, and the USSR with 2.3 million. These six groups accounted for about 59 percent of all residents of foreign stock.

School Systems Reduced

The number of public school systems in the United States has been reduced by some 16,000, or 30 percent, during the last five years. In the just-completed school year 1961-62, the country contained 37,025 school systems, including 6,031 nonoperating systems.

This reduction reflects primarily the consolidation of school systems. Thus, the number of relatively large systems, of 1,200 pupils or more, has increased some 20 percent during the past five years to a total of 5,841. Smaller systems have declined in number, those containing 50 to 1,199 pupils dropping 21 percent to 13,940 and those with fewer than 50 pupils declining 48 percent to 11,213. These small districts represent 68 percent of the districts but only 15 percent of enrollment. At the other extreme, the 132 largest school systems, each with at least 25,000 pupils, account for 26 percent of enrollment.

Family Income Higher in Urban Areas

The median income of families living in the urban fringe (suburbs) of American cities of 50,000 or more population was \$7,100 in 1959, according to the 1960 Census of Population. The national median was \$5,700, with the median for all urban families amounting to \$6,200 and for all rural families \$4,400.

Among urban families, the median income was \$6,400 in urbanized areas and \$5,900 in the central cities. Median income for families in other areas were as follows: farm, \$3,200; nonfarm rural, \$4,800; urban areas of 2,500 to 10,000 population, \$5,200; and urban areas of 10,000 to 50,000 population, \$5,500.

Home Owners Outnumber Renters

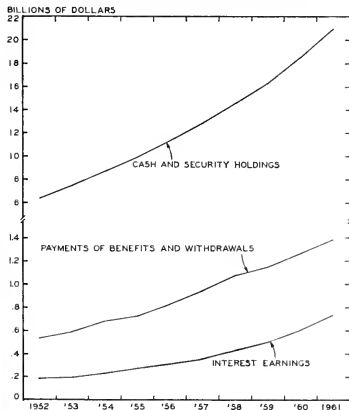
At the time of the 1960 census, there were 58.3 million housing units in the United States. Approximately 1 in 10 of these was vacant. Of the remaining 53.0 million occupied units, 62 percent were owner occupied and 38 percent were renter occupied.

Renters were in the majority in only three states, New York, Hawaii, and Alaska, where the percentages of renter-occupied housing units were 55, 60, and 52 respectively. In the other 47 states, the number of home owners exceeded the number of renters by a considerable margin. California had the highest proportion of owner-occupied units, with 58 percent in this category.

Per Capita Egg Consumption Declines

Although the total number of eggs used has remained fairly stable, per capita egg consumption declined from 392 eggs per person in 1951 to 326 eggs per person in 1961, a drop of 17 percent. Two principal reasons are given by the Department of Agriculture for this decline in per capita egg consumption. First, people are eating smaller breakfasts, and second, there has been a significant decrease in the proportion of the population raising chickens to provide eggs for home consumption.

STATE AND LOCAL GOVERNMENT RETIREMENT SYSTEM FINANCES



Source: U.S. Bureau of the Census, *Finances of Employee-Retirement Systems of State and Local Governments in 1961*, May 11, 1962.

LOCAL ILLINOIS DEVELOPMENTS

Eight of the eleven major indexes of business activity in Illinois rose in May. The largest increase over April (29.7 percent) was in construction contracts, and the next largest were in life insurance sales (8.6 percent) and in bank debits in 15 cities and electric power production (6.6 percent each). The largest decrease was 4.3 percent in seasonally adjusted department store sales for Chicago, with farm prices received declining 1.0 percent and the consumer price index for Chicago, 0.2 percent.

Comparisons with May, 1961, show increases in all indicators with the exception of farm prices received, which fell 1.0 percent.

Bank Debits Increase

Bank debits seasonally adjusted for all Illinois metropolitan areas in the Seventh Federal Reserve District (all except those in the St. Louis Metropolitan Area) rose from May, 1961, to May, 1962. Champaign-Urbana showed the largest increase, 20.4 percent, from a year ago, with Springfield, the Quad-Cities, Peoria, and Chicago each reporting increases of over 13 percent. The smallest increase, 5.1 percent, was in the Rockford area.

In addition to these metropolitan areas, two Illinois cities classified as urban centers showed large increases from May, 1961, to May, 1962. The seasonally adjusted annual rates for Bloomington and Danville increased 17 percent and 15.3 percent, respectively.

Bank debits this May were also higher than in April. Percentage increases in the seasonally adjusted annual rate for Champaign-Urbana, Chicago, Rockford, and the Quad-Cities were partially offset by declines for Decatur, Peoria, and Springfield.

Chicago Area Employment Down, 1957-61

Employment in the six-county Chicago metropolitan area, which had reached record high levels in 1957, fell by approximately 90,000 to 1.8 million by mid-March, 1961,

according to a recently published study of the Illinois State Employment Service. Employment in the United States as a whole set new record highs in both 1960 and 1961.

Most of Chicago's job decline occurred in the counties of Cook and DuPage, with a large drop in the central area partially offset by increases in the suburban districts. Total gains of approximately 6,000 jobs in the outlying counties of Kane, Lake, and McHenry were nearly offset by Will County's loss of 5,000.

In the northwest district of Chicago, where industrial growth was stimulated by good roads and large available tracts of lower-cost land, employment rose by nearly 8,000; all other sectors of the city experienced job losses, many of which resulted from the migration of industry to the suburbs. The largest reductions in employment occurred in Chicago's west central area and on the south side. Both of these areas were heavily blighted. Urban renewal, neighborhood conservation, and land clearance programs are being carried forward in an attempt to halt further deterioration in these areas.

Research Park Planned

Plans for a \$50 million research park in Chicago's central south area have been announced by the Illinois Institute of Technology. It will adjoin the present Technology Center, including the Armour Research Foundation, the Institute of Gas Technology, the Association of American Railroads, and the IIT. Industrial, scientific, and engineering research facilities will be developed in the area bounded by 35th Street, Michigan, 39th Street, and State.

This section was recommended by the Department of City Planning for early action in the redevelopment of a 950-acre central south area. Current plans call for construction on the first eight acres of the project to begin in the fall of 1962.

Realized Net Income Rises

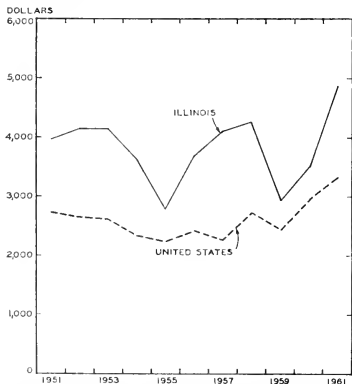
Realized net income per Illinois farm in 1961 is estimated by the United States Department of Agriculture at \$4,878, an increase of 39 percent over 1960. For the nation as a whole, realized net income per farm rose 12 percent from 1960 to \$3,323 (see chart). To calculate realized net income, cash operating expenses and depreciation are subtracted from the sum of cash sales, government payments, value of farm products consumed, and rental value of farm dwellings.

In Illinois the increase in realized net income per farm resulted largely from sales of crops held over from 1960 and from higher crop yields in 1961. Total cash receipts from farm marketings rose about 9 percent, with substantial increases in receipts from hogs, milk, corn, and soybeans. Government payments were up \$572 per farm. The number of farms was down by about 4,000.

Preliminary data indicate that the largest percentage increases in net farm income were recorded in southern Illinois. Earnings on grain farms in that area were up nearly 40 percent and for hog and dairy farms about 20 percent.

Crop yields were exceptionally high in all areas of Illinois in 1961. Livestock-feed price ratios were average or above for all enterprises except feeder cattle. Even though farm operating costs continued to rise slightly, total receipts increased even more than costs, making 1961 an unusually good farm year.

REALIZED NET INCOME PER FARM



Source: U.S. Department of Agriculture, *Farm Income Situation*, August, 1960, Supplement; February, 1961; and March, 1962.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1962

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$32,647 ^a	1,287,961 ^a	\$604,940 ^a		\$23,705 ^a	\$16,596 ^a
Percentage change from	Apr., 1962	-7.3	-1.4	-0.5	+0	+0.6	-10.4
	May, 1961	-56.5	+8.1	+16.4	+0	+11.3	-0.7
NORTHERN ILLINOIS							
Chicago		\$20,310	923,238	\$432,012		\$22,082	\$14,232
Percentage change from	Apr., 1962	-16.7	-2.7	-1.1	+0	+0.6	-11.4
	May, 1961	-66.2	+6.5	+15.8	+0	+11.7	-1.1
Aurora		\$ 662	n.a.	\$10,828		\$ 86	\$ 177
Percentage change from	Apr., 1962	+10.4		+0.8	+6	+0.8	-3.0
	May, 1961	-24.9		+36.7	+5	+6.9	-2.8
Elgin		\$ 420	n.a.	\$ 7,303		\$ 55	\$ 149
Percentage change from	Apr., 1962	-67.7		+2.5	n.a.	+13.7	+10.7
	May, 1961	-3.4		+28.9		+6.4	+13.2
Joliet		\$ 1,074	n.a.	\$12,550		\$ 97	\$ 106
Percentage change from	Apr., 1962	+36.7		+4.3	+8	+7.3	-22.8
	May, 1961	-77.1		+29.3	+3	+6.0	-2.4
Kankakee		\$ 211	n.a.	\$ 6,105		n.a.	\$ 73
Percentage change from	Apr., 1962	+9.7		+4.5	n.a.		+0.1
	May, 1961	-22.1		+25.6			-2.4
Rock Island-Moline		\$ 1,084	28,913	\$12,181		\$ 130 ^b	\$ 179
Percentage change from	Apr., 1962	-38.4	-4.2	+1.0	n.a.	+11.4	-18.9
	May, 1961	+16.3	+9.5	+15.3		+1.7	-3.9
Rockford		\$ 1,967	59,644 ^c	\$21,705		\$ 213	\$ 248
Percentage change from	Apr., 1962	+22.0	+2.8	-0.1	+7 ^e	+8.0	-13.6
	May, 1961	+23.3	+14.0	+6.4	+3 ^e	+2.4	+1.9
CENTRAL ILLINOIS							
Bloomington		\$ 2,036	13,069	\$ 6,672		\$ 96	\$ 137
Percentage change from	Apr., 1962	+838.3	+4.4	-0.6	n.a.	+3.6	-11.3
	May, 1961	+287.8	+18.0	+15.4		+12.1	-1.8
Champaign-Urbana		\$ 417	17,524	\$10,174		\$ 96	\$ 136
Percentage change from	Apr., 1962	-35.1	+3.9	+0.2	n.a.	+10.5	-6.4
	May, 1961	+52.7	+20.5	+23.2		+12.3	-5.8
Danville		\$ 279	19,175	\$ 7,000		\$ 54	\$ 76
Percentage change from	Apr., 1962	+78.3	+5.1	+3.5	0	+3.1	-6.7
	May, 1961	+22.9	+35.0	+20.1	+12	+9.8	+8.1
Decatur		n.a.	34,492	\$12,315		\$ 123	\$ 134
Percentage change from	Apr., 1962		-9.5	-1.2	+7 ^e	-2.0	-2.9
	May, 1961		-0.6	+2.0	+3 ^e	+5.8	-6.7
Galesburg		\$ 185	10,255	\$ 4,900		n.a.	\$ 51
Percentage change from	Apr., 1962	-39.0	+2.4	+4.2	n.a.		+7.0
	May, 1961	+30.3	+12.4	+21.6			+2.9
Peoria		\$ 888	64,495 ^c	\$19,546		\$ 265	\$ 316
Percentage change from	Apr., 1962	-3.3	+1.4	+0.1	+0	+6.2	+5.6
	May, 1961	-48.5	+8.9	+18.1	+5	+12.0	+0.7
Quincy		\$ 181	14,031	\$ 6,171		\$ 60	\$ 77
Percentage change from	Apr., 1962	-44.4	+0.3	+6.9	n.a.	+10.1	-3.6
	May, 1961	-32.0	+16.2	+23.5		+6.5	+9.0
Springfield		\$ 1,831	47,800	\$15,882		\$ 147	\$ 346
Percentage change from	Apr., 1962	+62.0	+12.3	+3.7	+5 ^e	+3.0	+19.5
	May, 1961	-12.9	+20.6	+25.9	+5 ^e	+7.8	+11.8
SOUTHERN ILLINOIS							
East St. Louis		\$ 230	16,992	\$ 8,926		\$ 143	\$ 68
Percentage change from	Apr., 1962	+194.9	+0.9	-2.1	n.a.	+2.8	-15.7
	May, 1961	+15.0	+1.2	+12.4		-1.6	-8.3
Alton		\$ 746	25,343	\$ 5,346		\$ 58	\$ 34
Percentage change from	Apr., 1962	+4.1	+1.8	-1.2	n.a.	+25.6	-20.4
	May, 1961	0.0	+4.8	+13.2		+14.2	-12.6
Belleville		\$ 125	12,989	\$ 5,335		n.a.	\$ 56
Percentage change from	Apr., 1962	+4.2	+4.5	-0.3	n.a.		-1.3
	May, 1961	-19.4	+23.5	+17.8			+11.2

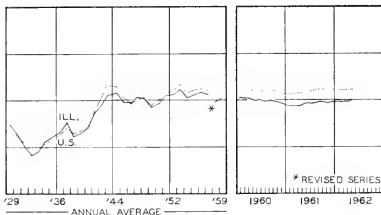
^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue.Data are for April, 1962. Comparisons relate to March, 1962, and April, 1961. ⁴ Research Department of Seventh Federal ReserveBank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods

ending May 25, 1962, and May 26, 1961.

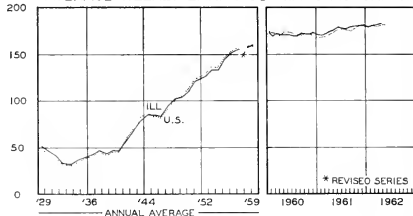
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

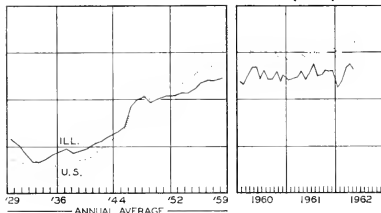
EMPLOYMENT-MANUFACTURING



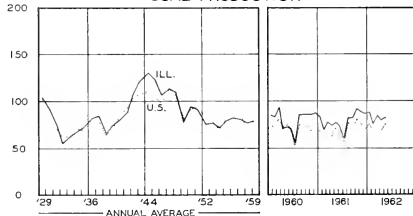
AVERAGE WEEKLY EARNINGS-MANUFACTURING



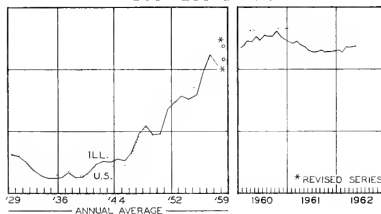
DEPARTMENT STORE SALES (ADJ.)



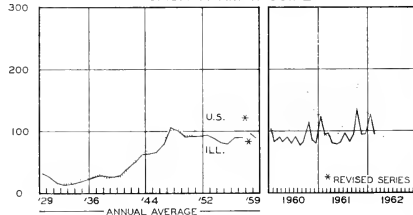
COAL PRODUCTION



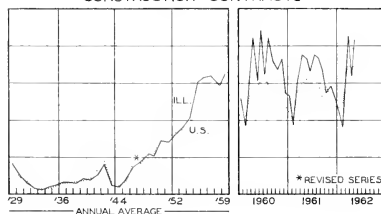
BUSINESS LOANS



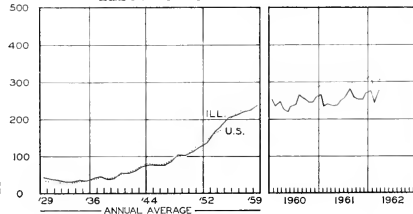
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 19

SEPTEMBER, 1962

NUMBER 8

HIGHLIGHTS OF BUSINESS IN AUGUST

Business indicators for August presented a mixed picture. Steel production generally continued to inch upward, as it had in July, and reached a level of 1,672,000 tons of ingots for the final week of the month. Other production indicators which showed gains were electric power, petroleum, bituminous coal, and paperboard. The output of motor vehicles was the notable exception, of course, as shutdowns for model changeovers virtually eliminated car production during the middle weeks of August. The Federal Reserve Board index of industrial production was unchanged at 119 (1957 = 100).

Personal income rose in August to a record \$442.8 billion, at a seasonally adjusted annual rate. The increase of \$900 million over the July figure was the smallest gain since January. Department store sales for the month of August were estimated at 114 percent of the 1957-59 average, down 1 point from the previous month.

Construction Outlays Steady

The value of new construction put in place in August was estimated at \$5.8 billion, only slightly higher than in July but 7 percent more than in the year-earlier month. The small change from July to August was in line with the usual pattern at that season of the year.

Total new private construction outlays of \$4.0 billion were off about 1 percent from July but were 8 percent above August, 1961. The chief factor in the month-to-month decline was a 3 percent drop in nonfarm residential building to \$2.3 billion. The expected seasonal change is a decrease of 1 percent. Despite the greater-than-usual cutback, private nonfarm residential expenditures remained 9 percent above the figure for August, 1961.

In contrast to private construction spending, public outlays rose to \$1.8 billion in August, 5 percent over July and 6 percent over the previous August. The expected advance between July and August is 3 percent.

Retail Sales Off Fractionally

After reaching a record figure of \$19.7 billion in July, retail sales declined a half of 1 percent in August to a seasonally adjusted total of \$19.6 billion. At this level, last month's sales exceeded those of August, 1961, by 8 percent and were the third highest ever recorded.

The August decrease was caused by a 3 percent drop in sales of durable goods, which in turn was mainly the result of a downturn in sales by automobile dealers. Total

durable goods sales at retail were \$6.2 billion. Nondurable sales, on the other hand, were up 1 percent in August over July, to a record \$13.4 billion.

Planned Capital Investments Unchanged

Business firms continue to plan to spend \$37.2 billion (seasonally adjusted annual rate) on new plant and equipment this year, the same amount indicated in February and in May. Actual outlays for the first two quarters of the year averaged \$36.3 billion, but anticipated expenditures for the third and fourth quarters are \$37.75 billion and \$37.95 billion, respectively.

The anticipated total for the third quarter is unchanged from the previous survey, but there have been changes in investment plans and in the timing of expenditures in the various industries. Manufacturers and public utilities have made slight downward revisions in their plans for the year; other major industries have maintained or increased their projected outlays. Among manufacturers, chemical and iron and steel companies reported small downward revisions in planned investments. Companies making nonelectrical machinery, textiles, and motor vehicles had upped their anticipated expenditures for the third quarter.

Seasonally adjusted data indicate that durable goods manufacturers are increasing their spending in 1962 more than firms making nondurable goods. A steady increase for the former is expected to bring fourth-quarter expenditures 13 percent above the last quarter of 1961; but outlays by the latter appear to be leveling off, with projected fourth-quarter investment very little higher than in the corresponding period last year.

Employment at Record

Employment increased contraseasonally between the July and August survey weeks to the highest figure on record, 69,762,000. A larger-than-usual gain of nearly 500,000 in nonagricultural employment, to 63,993,000, more than balanced a cut of 300,000 in the number of farm jobs. The nonfarm employment figure was also a record.

Offsetting the encouraging picture of higher employment was a rise in the seasonally adjusted rate of unemployment from 5.3 percent to 5.8 percent. Unemployment, which is normally expected to drop 450,000 from July to August, declined only 86,000 this year.

The Long Term

Agriculture will continue to move rapidly toward a more efficient type of farm enterprise. In the last 20 years the total population identified as agricultural has declined by more than one-third. This trend is continuing and substantial readjustments in American agriculture will be required for efficient family operation and for adequate incomes for farm people. Output per man-hour is in a strong upward surge and is expected to increase by one-third in the next ten years. The demand for capital by the individual farmer will continue to increase for production purposes and for real estate loans, particularly loans for enlargement of farms. In recent years in the higher priced land areas of the Corn Belt, more than 40 percent of land purchased has been for purposes of farm enlargement. The forces bringing about increases in farm real estate values are still working although they are tempered by income prospects.

The long-term or basic solution to the United States farm problem is one of adjustment in size and numbers of farms. Agriculture has a large amount of excess labor resources. Two-thirds of the farmers produce only 15 percent of the total product going through the market. One-third produce the other 85 percent. The less efficient farmers cannot hope to achieve a satisfactory income through farming alone.

Capital requirements, although varying widely by type of farm and by various sizes of farms in all parts of the United States, are continuing to increase rapidly. Chart 2 shows the trend in farm assets, which have tripled since 1950. Because of the continued decline in number of farmers and the gradual trend toward farm enlargement, assets used per farm increased from \$40,162 on January 1, 1959, to \$47,632 on January 1, 1962. In

the same period, assets per farm worker increased from \$20,289 to \$23,259. Most farm operators need to expand their capital structures.

In conclusion, agriculture will continue to move rapidly toward fewer and larger farms with the family farm the predominant type of enterprise. If the trends of the past two decades are projected, we should expect about 2 million farms by 1980 or 1985. The smaller farms selling less than \$5,000 worth of product will decline in number more than others, although there will be adjustments all along the line. The family farm as the basic unit of agriculture will be an increasingly efficient unit, more highly capitalized, mechanized, and automated.

Food surpluses will not necessarily be chronic or unmanageable. The last four or five years have seen a stabilizing of total stocks. In another year or two stocks may be near the level considered desirable under current world conditions.

The 1962 Congress turned toward lower price supports of some basic commodities with use of compensatory payments in some cases. This may be a turning point in agricultural policy. Whether or not this proves to be the case will continue to be a dynamic political issue.

Confusion of Economic Goals

(Continued from page 2)

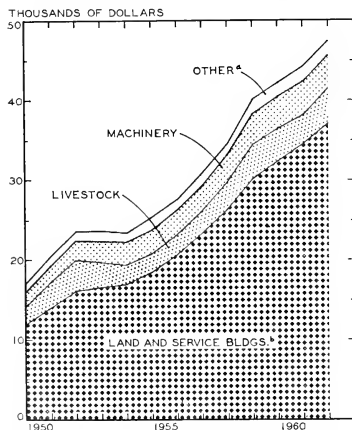
high rate of investment in new productive capacity. When business conditions justified rapid expansion, high rates of investment tended at times to force a higher rate of saving by raising prices. The forced saving did not, however, result in lower living standards. On the contrary, the growth in output was rapid enough so that consumption also expanded. In the whole upward sweep of production and prices for a generation, there have been only brief intervals of restricted consumption, and those were the result of wars, not of normal peacetime development.

In our kind of economy, a moderate rate of price advance is the normal concomitant of high prosperity. The pressures of demand that maintain a rapid rate of growth inevitably result in some price increases; and price increases in key industries are part of the pattern of growth, providing both the incentive and the means to further expansion.

The imposition of anti-inflation restrictions in the last five years has contributed only to the frustration of growth. With the Kennedy Administration accepting the same goal in part, inconsistencies in policy have developed. The restriction of demand—whether by high interest rates or by orders to absorb the added costs of federal pay increases in existing appropriations—hurts the expansion that has been proclaimed the primary goal of economic policy. A tax incentive of 7 percent for new investment is not likely to be effective when profits are squeezed by rising costs and by the sharpening price competition that derives from failure of demand to grow as rapidly as industrial capacity.

Barring all-out war, there is now no threat of any substantial price advance, and none is likely to arise as long as large margins of unused capacity and idle manpower persist. The fear that some little remnant of inflation may yet be experienced is misplaced. What is needed now is to get back to the straightforward goals of the Employment Act. But to do so it will be necessary to overcome the two-headed policy monster whose conflicting impulses result only in stagnation. VLB

CHART 2. AVERAGE VALUE PER FARM OF ASSETS USED IN PRODUCTION



* Crops held for livestock feed and working capital.

† Market value as of January 1.

Source: U.S. Department of Agriculture.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Cigarette Output Increases

The 1962 output of cigarettes is estimated at 539 billion, a 2.1 percent increase over 1961 and a new record. The use of cigarettes in the United States (including that of overseas armed forces) is estimated at 512 billion, a 1.8 percent increase over last year. Although total output and use of cigarettes in 1962 will be above that of any previous year, the rate of gain will be smaller than that recorded for the previous seven years, when the annual gain in production and use averaged 3 to 4 percent.

For 1962 the number of cigarettes used (which accounts for over 80 percent of all tobacco used in the United States) is estimated at 3,984 per person 15 years of age and over, or 199 packs each. On a per capita basis, use of smoking tobacco, chewing tobacco, and snuff in this country has been declining for some years. Before the United States entered World War II, the total amount of smoking tobacco used in pipes and roll-your-own cigarettes was nearly 4.5 pounds for each male 18 years old and over. In the war years, 1941-44, per capita use dropped about a third and since then has declined to 1.25 pounds. The 1962 use of chewing tobacco is estimated at a little over 1 pound, 30 percent less than 10 years ago and less than half of what it was just prior to World War II. In the case of snuff the 1962 use per person is estimated at a quarter of a pound, about a fourth less than 10 years ago and nearly two-fifths less than in 1940.

Farm Expenses Rise

Farm production expenses in the first nine months of 1962 were up about \$600 million from the same period of 1961, and thus continued the upward trend of the past few years. However, greater cash receipts and a higher rate of government payments helped to push realized net income 1 percent above last year.

As indicated in the map, feed grain purchases made up the largest single farm expense in almost two-thirds of the states in 1961. For the second successive year, production of feed grains is estimated to be 8 percent less than that used. Farm wage rates also rose in 1962 to an average of \$2.38 per hour, up 2.6 percent from last year. Prices paid for motor vehicles (including tractors) and farm machinery were 4 percent and 2 percent higher respectively for the first six months of 1962 as compared

with the first six months of 1961. Other costs such as seed, insurance premiums, tax levies, and livestock purchases have all shown some increase so far in 1962. However, in the areas of building and fencing materials, fertilizer, pesticides, and interest rates, the costs have been generally stable in 1962 at the same level as in 1961.

National School Lunch Program

Today 14 million children sit down to lunches served through the National School Lunch Program. The first known school feeding was sponsored by the Children's Aid Society in New York City during 1853 and provided free lunches to children in local industrial schools. Nearly 65,000 schools are taking part in the program now and by the end of the school year will have served 2.5 billion lunches.

During the last school year the total program cost was \$1.18 billion from all sources. Children's payments for their lunches provided for at least 55 percent of the cost; the rest of the cost was covered by donations of food from the Department of Agriculture, by state and local contributions, and by federal cash assistance.

The Type A lunch meets from a third to a half of the recommended daily dietary allowances and includes, as a minimum, a protein-rich food, servings of fruits and vegetables, bread, butter or fortified margarine, and a half pint of milk. More than 75 percent of the food used in the program is purchased locally by the participating schools and the rest is furnished by the United States Department of Agriculture from its available stocks.

New Copy Paper Marketed

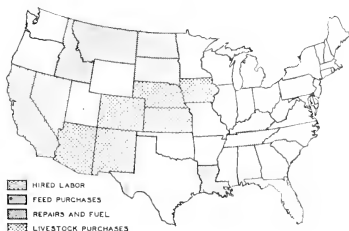
A new kind of copy paper manufactured by Copynation, Inc., may aid those industries where technical drawings have to be copied many times. This one-step paper, called UV-Dri, with a transparent or translucent original, is fed past ultraviolet light and comes out as a color-reversed, blueprint-like copy, thus eliminating the chemical or ammonia processing of other machines. Although the cost of the paper is 2 cents for a letter-size sheet (roughly twice that of older-type paper), the elimination of chemicals reduces machine maintenance and operating costs.

The paper does have one admitted drawback: It is not fixed, and therefore further exposure to ultraviolet rays or sunlight will gradually cause it to fade. It does not, however, fade noticeably indoors; and since the paper remains sensitive, additions can be made to existing prints simply by placing new copy in the correct spot, covering the rest of the print, and running it past the light source again. The paper's shelf life is virtually permanent.

Most Engineers Employed in Manufacturing

Of the 854,000 employed male professional engineers counted in the 1960 census, 55 percent were in the manufacturing industries. Of these, 102,000 were in electrical machinery, equipment, and supplies, 80,000 in aircraft and parts, 67,000 in machinery except electrical, 53,000 in fabricated metal products, and 32,500 in chemicals and allied products. Industries other than manufacturing which employed the largest groups of engineers were construction with 90,000 and public administration with 69,000.

LARGEST SINGLE FARM EXPENSE, 1961



Source: U.S. Department of Agriculture, *Farm Cost Situation*, November, 1962, p. 1.

LOCAL ILLINOIS DEVELOPMENTS

Chicago Has Favorable Debt Position

Comparatively low bonded indebtedness places the city government of Chicago in a good position to finance projects recommended by the Department of City Planning in its 1962-66 capital improvements program. The city's debt is constitutionally limited to 5 percent of assessed valuation; on the basis of total 1961 assessments of \$10.45 billion, indebtedness of \$522.5 million is allowable. The present outstanding debt is only \$297.5 million.

At the beginning of this year, the total bonded indebtedness for the six major governments serving the city was \$726 million. In addition to the city government these include the Board of Education, Cook County, the Cook County Forest Preserve District, the Chicago Park District, and the Metropolitan Sanitary District of Greater Chicago. The total per capita debt for Chicago residents was \$204 in January, 1962, compared with \$378 for New York City, \$293 for Philadelphia, and \$286 for Los Angeles.

Industrial Expansion Continues

Major industrial developments have recently been reported by a number of cities in Illinois. A multimillion-dollar soapmaking plant and distribution center is being built by Armour and Company on a 40-acre site near Aurora. It is expected to be in operation by the end of 1963. At Moline a \$20 million chemical fertilizer plant is to be completed next August by Nitrin, Inc. A new plant of Kraft Foods covering 425,000 square feet and employing between 400 and 500 people is scheduled to begin operations next April in Champaign.

Several other large projects are scheduled in the State. All-Steel Equipment, Inc., maker of office furniture, is building a new headquarters and adding 510,000 square feet to its factory at Montgomery at a total cost of \$4 million. Signode Steel Strapping Company and the Golden Grain Macaroni Company of California are

constructing new plants to cost \$3 million and \$1 million, respectively, at Bridgeview. The Norge Division of Borg-Warner Corporation plans to build a \$2 million addition to its automatic and wringer washer plant at Herrin. Warnecke Electron Tubes, Inc., will produce advance design tubes and components in a new plant at Des Plaines. Swain and Myers, Inc., is constructing a 75,000-square-foot building at Lincoln for the manufacture of store fixtures. Union Carbide Company has purchased land near Elgin for a plant of 100,000 square feet for the production of high-density polyethylene bottles. The distilling subsidiary of Standard Brands, Inc., will occupy a modern bottling plant now under construction at Plainfield. Others include the Blackhawk Silica Sand Company's new million-dollar plant near Troy Grove, the new Supersweet Feed Company plant at Danville, and the new polymer plant of Foster Grant Company, Inc., a major producer of styrene monomer, plastic resins, and molded articles, at Peru.

Placement of Handicapped Workers

Over 2.6 million handicapped workers have been placed by state employment services throughout the nation since 1947. Last year the Illinois State Employment Service placed 8,692, of which 4,432 were in the Chicago and suburban areas. In addition 1,004 handicapped persons were trained and placed by the Illinois Division of Vocational Rehabilitation, which has 23 district centers in the State.

Persons with physical disabilities in Illinois number 1.9 million. Of these 600,000 suffer from arthritis and rheumatism and another 600,000 from heart disease. Alcoholism has damaged 370,000 in varying degrees. The State has 100,000 epileptics; 56,000 deaf or partially deaf; 35,000 cerebral palsied; 20,500 blind; and 4,000 with tuberculosis. Many of these persons have multiple disabilities; some are unemployable, but many are currently employed.

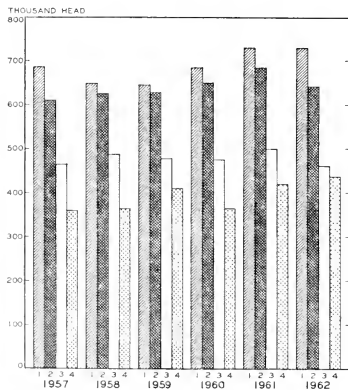
More Cattle on Feed in Illinois

On October 1, 1962, Illinois farmers had 437,000 cattle and calves on feed, an increase of 4 percent over the year before (see chart). Grain-fed cattle marketed during the past quarter totaled 313,000 head. Cattle placed on feed during the same period totaled 285,000 head, an increase of 9 percent over the third quarter a year ago. Feeders reported that they expect to market 61 percent (266,000 head) by January 1, 1963.

During 1961, sales of cattle and calves produced 22 percent of the cash received from marketing Illinois farm products. From mid-1961 to September of this year prices rose strongly—about 34 percent in 14 months. The average price of choice steers at Chicago for the year to mid-November was \$27.50 a hundred pounds. This was higher than any yearly average since 1959 and possibly resulted to some extent from the 32-day "all-out holding action" encouraged by the National Farmers Organization earlier this fall.

Since cattle are not being sold as fast as they are being produced, stocks on farms are increasing. When this trend is reversed a moderate price decline can be expected. There are now approximately 73 million beef cattle on hand in the United States, enough to provide consumers with a new record of 89 pounds of beef per person, 40 percent more than was available a decade ago.

CATTLE ON FEED, BY QUARTERS



Source: Illinois Cooperative Crop Reporting Service.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1962

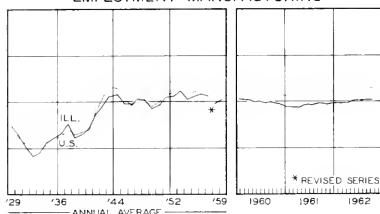
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS		\$41,530 ^a	1,352,571 ^a			\$25,356 ^a	\$18,382 ^a
Percentage change from	Sept., 1962 .. Oct., 1961	+6 3 +3 0	-4 0 +3 2		+13 +7	+20 0 +18 7	+14 7 -1 0
NORTHERN ILLINOIS							
Chicago		\$29,795	979,112			\$23,586	\$15,880
Percentage change from	Sept., 1962 .. Oct., 1961	+0 0 -2 6	-4 5 +2 2		+13 +7	+20 4 +19 7	+14 8 -2 4
Aurora		\$ 1,043	n.a.			\$ 94	\$ 166
Percentage change from	Sept., 1962 .. Oct., 1961	+93 2 +10 4			+2 -5	+0 2 +19 4	+8 4 -0 0
Elgin		\$ 495	n.a.			\$ 59	\$ 147
Percentage change from	Sept., 1962 .. Oct., 1961	+15 7 -0 8			n.a.	+11 8 +3 3	+36 0 -8 1
Joliet		\$ 694	n.a.			\$ 101	\$ 121
Percentage change from	Sept., 1962 .. Oct., 1961	+15 7 -47 6			-3 -7	+8 2 +1 5	+0 4 +0 7
Kankakee		\$ 399	n.a.			n.a.	\$ 75
Percentage change from	Sept., 1962 .. Oct., 1961	+74 3 +5 6			n.a.		-1 0 -2 0
Rock Island-Moline		\$ 1,202	30,661			\$ 139 ^b	\$ 176
Percentage change from	Sept., 1962 .. Oct., 1961	-25 2 +9 3	-5 4 +0 1		n.a.	+11 1 +15 8	+20 1 -15 8
Rockford		\$ 1,562	55,786			\$ 221	\$ 263
Percentage change from	Sept., 1962 .. Oct., 1961	-0 5 +44 9	-6 1 +3 0		+4 ^c +3 ^c	+6 6 +4 2	+15 7 +5 7
CENTRAL ILLINOIS							
Bloomington		\$ 636	13,941			\$ 95	\$ 140
Percentage change from	Sept., 1962 .. Oct., 1961	-29 3 +105 2	+6 1 +14 2		n.a.	+12 4 -7 6	+11 4 -0 2
Champaign-Urbana		\$ 494	19,304			\$ 116	\$ 153
Percentage change from	Sept., 1962 .. Oct., 1961	+79 3 -23 9	+1 7 +15 1		n.a.	+26 6 +10 5	+8 4 +10 4
Danville		\$ 412	19,708			\$ 65	\$ 74
Percentage change from	Sept., 1962 .. Oct., 1961	+108 7 -10 4	-1 8 +15 9		+2 +2	+25 8 +1 5	-2 3 -8 0
Decatur		\$ 498	39,722			\$ 159	\$ 126
Percentage change from	Sept., 1962 .. Oct., 1961	+15 2 -16 6	-6 8 +3 3		+0 ^c +7 ^c	+21 1 +6 6	+7 1 -5 3
Galesburg		\$ 148	10,809			n.a.	\$ 50
Percentage change from	Sept., 1962 .. Oct., 1961	-44 3 -55 2	-8 5 +11 7		n.a.		+8 6 -7 4
Peoria		\$ 577	65,360			\$ 293	\$ 414
Percentage change from	Sept., 1962 .. Oct., 1961	-22 0 -4 0	-8 6 +5 9		+22 +2	+17 4 +12 9	+31 0 +12 4
Quincy		\$ 1,052	14,400			\$ 62	\$ 80
Percentage change from	Sept., 1962 .. Oct., 1961	+46 7 +312 5	-11 5 +11 2		n.a.	+19 3 -1 2	+4 6 +4 1
Springfield		\$ 871	45,999			\$ 167	\$ 334
Percentage change from	Sept., 1962 .. Oct., 1961	+25 9 -5 5	-3 7 +3 9		+6 ^c 0 ^c	+15 1 +5 7	+10 5 +11 5
SOUTHERN ILLINOIS							
East St. Louis		\$ 124	17,529			\$ 148	\$ 76
Percentage change from	Sept., 1962 .. Oct., 1961	+99 5 0 0	-3 7 -3 3		n.a.	+19 8 +1 4	+19 0 +2 8
Alton		\$ 148	26,668			\$ 51	\$ 40
Percentage change from	Sept., 1962 .. Oct., 1961	-53 4 -37 3	+7 1 +1 7		n.a.	+15 2 +5 5	+12 3 -2 4
Belleville		\$ 1,381	13,573			n.a.	\$ 57
Percentage change from	Sept., 1962 .. Oct., 1961	+147 5 +1,155 5	-11 2 +9 4		n.a.		+4 9 -10 6

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data for September, 1962, not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending October 12, 1962, and October 13, 1961.

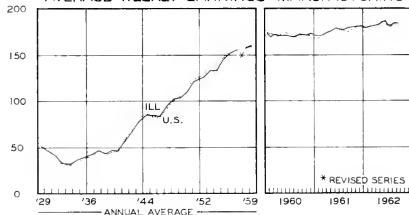
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

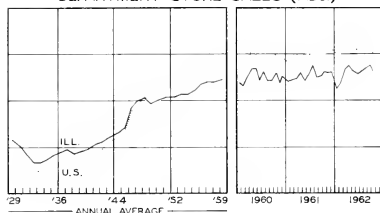
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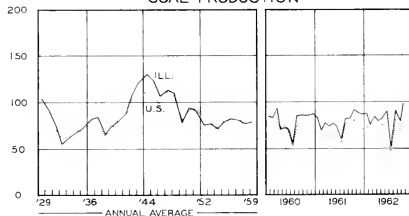
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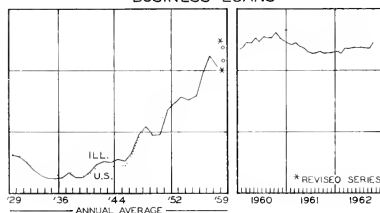
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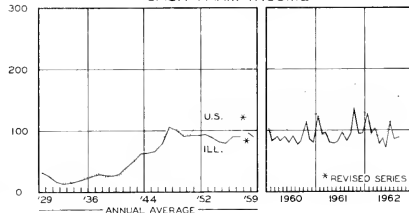
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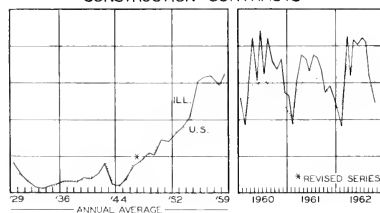
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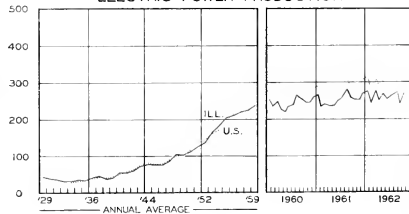
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VOLUME 20

JANUARY, 1963

NUMBER 1

HIGHLIGHTS OF BUSINESS IN DECEMBER

The sidewise movement of the economy continued for yet another month in December. Slight was the word for most changes. Steel showed little, if any, more vigor than it had in preceding months; fuel production (coal and petroleum) was little changed from November; electric power production was up somewhat, as might be expected. The car makers maintained a high rate of production; 648,390 automobiles were assembled, only about 40,000 fewer units than in November. When seasonal elements are eliminated, industrial production as a whole remained at 120 (1957-59 = 100). One of the striking aspects of production in recent months has been the stability in virtually all of the major categories once seasonal factors are taken into consideration.

In the consumer part of the economy, the picture was much the same. Department store sales set a record for the month, but after seasonal adjustment dropped from 118 percent to 116 percent of the 1957-59 average. Despite this decline and a small decrease in car sales, retail sales, after seasonal adjustment, crept slightly higher to a new record of \$20.2 billion.

Two other indicators showed some improvement in December. Personal income rose to \$450 billion at a seasonally adjusted annual rate. The November figure was \$447.4 billion. Preliminary estimates for the fourth quarter put gross national product at about \$562 billion (seasonally adjusted annual rate), up from \$555.3 billion in the previous three-month period. From the second to the third quarter, GNP had risen only \$3.3 billion.

Instalment Buying Perks Up

Consumer instalment credit increased \$581 million in November after seasonal adjustment, the largest monthly rise since September, 1949. In consequence, total instalment credit stood at \$47.3 billion at the end of November. About half of the expansion, \$307 million, resulted from a strong advance in outstanding loans for the purchase of new and used cars, the largest segment of instalment credit. The increase in auto paper was the greatest since September, 1955.

All varieties of noninstalment credit, which includes single-payment loans, charge accounts, and service credit, showed small increases totaling \$122 million. Noninstalment credit outstanding at the end of November amounted to \$14.2 billion.

The November advance showed a marked increase in consumers' willingness to assume additional debt. At \$703

million, the rise for the month was equivalent to an annual rate of \$8.4 billion. This rate was half again as large as that which prevailed over the 12-month period ending November 30. At that time, consumer credit outstanding was \$61.5 billion, \$5.6 billion higher than a year earlier.

Railroad Merger

One of several proposed railroad mergers was approved by the Interstate Commerce Commission at the end of December when the Chesapeake and Ohio was given permission to obtain control of the Baltimore and Ohio. The ICC's order becomes effective on February 4 unless it is blocked by an appeal. The merger will join the two roads into one 11,000 mile system reaching most of the major centers from New York and Norfolk on the East Coast to Chicago and St. Louis in the Midwest. The two roads take in about the same amount of revenue, with the B & O somewhat larger; but the C & O is one of the few profitable railroads in the country and the B & O showed a large loss in 1961 and is expected to be barely profitable in 1962. The urgency of the B & O's financial condition was given by the ICC as the main reason for approving the merger at this time instead of waiting until it could consider other applications before it. These other proposals involve the New York Central, the Pennsylvania, the Norfolk and Western, the Nickel Plate, and the Wabash.

Labor Disputes to the Fore

Major developments in labor relations in December were two newspaper strikes and a longshoreman's strike. In New York, members of the International Typographical Union struck four large dailies on December 8 and five other newspapers suspended publication under a publishers' agreement. The ITU's demands and the newspapers' offerings were far apart, the dispute grew increasingly acrimonious as time went on, and mediation efforts by various government officials were meeting with no success. In Cleveland, members of the Newspaper Guild were on strike against the two daily newspapers; the main issue there seemed to be union security. A strike by the International Longshoremen's Association, interrupted in October by a Taft-Hartley injunction, was on again December 23 at East and Gulf coast ports. Within a few days railroads had placed an embargo on further shipments to the affected ports. In all cases, prolonged labor stoppages seemed likely.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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How the World Shapes Up

The great political-economic developments of the post-war years are the Cold War, the unification of Europe, and the liberation of the colonial peoples. All three of these reflect United States policies to some extent but result in large measure from inherent forces beyond the control of any nation.

For the time being, military power is concentrated in two nations, both victors, who have taken measures, like the winners of previous great wars, to protect themselves against future wars. The result in this nuclear age has come to be called "the balance of terror." Our power has been mainly used through the Cold War years, not to promote any positive goal, but to counterbalance that of the USSR and to prevent the spread of communism to areas too weak to support their own defenses.

As the Cold War has progressed through stages in the Far East, the Near East, Hungary, Suez, and Cuba, a pattern has emerged. The leading military powers may risk all-out war where their own essential interests are involved but avoid direct conflict in remote areas where they cannot sustain effective action. They do not support the use of force by allied powers against underdeveloped countries which they hope to win over to their side. They even supply weapons to such countries to prevent their loss to unfriendly powers. But this is a game that can also be played by others. The world traffic in weapons has thus become so heavy that retention of control of any remote area by a colonial power is very costly if not impossible.

The European Economic Community

The integration of Europe as an economic community called the Common Market is not based on economic motives alone, though this is the field in which the start is being made. None of the European countries can be completely independent either economically or politically, but together they can be more than pawns in a disturbed world. They have definitely turned from attempts to progress by exploiting colonies, and now seek to progress by exploiting technology, which the smaller countries at least cannot use effectively as separate states. Modern methods of production require a mass market, and this is particularly true of the new, technically advanced, most highly capitalized, and most rapidly growing industries. The EEC countries have found that they can create a

truly large, free market for their growth industries in advance of full political and financial unification. The latter, nevertheless, is unmistakably the ultimate goal.

By the Rome Treaty, six highly industrialized countries of the Continent have created a free trade area with a common external tariff. Their combined population exceeds 175 million, or only about 5 percent less than ours. The United Kingdom, Norway, and Denmark—with applications for entry currently under negotiation—would add over 60 million more, making a total about 10 percent larger than that of the USSR. Further potential additions seeking economic association if not full political affiliation could bring the total to over 300 million. The Community will soon be about as self-sufficient in industry and agriculture as we, and outside producers will find it increasingly difficult to compete with those behind the tariff wall.

The political aspects of unification may ultimately be more important than the economic. The Community cannot be a great military power for some time but will develop strongly and gain in freedom of decision. It will insist upon a voice in world affairs and other powers will be forced to adjust to the requirements of this third great power bloc. We hope to keep it as our partner in the North Atlantic alliance but may have trouble in reconciling our desire for leadership with its insistence on equal status.

The exercise of this growing power is bound to promote Europe's own interests rather than ours or those of the underdeveloped countries. The latter need European cooperation for economic progress as we need it to retain our role as world banker. But neither can depend on it beyond the range in which it will be consistent with the programs they are setting for themselves. If adverse economic conditions develop, there might even be a turning inward, a recurrence of protectionism, which would hurt the entire world but hurt Europe's industries less than ours or those of the underdeveloped countries.

Great Britain, in its bid for entry to the Common Market, has found that it must go in as a full member or not at all. Its hand is forced, because other countries' future orientation must be primarily toward EEC and to be excluded from US-EEC policy making would leave it little influence in world affairs. For the rest of the free world also, its entry is important. England is foremost in democratic tradition and will contribute to greater Europe not only political stability but firmer political and economic links with both the United States and the former colonial countries throughout the world.

The Underdeveloped Countries

The liberation of the colonial peoples is primarily a political movement. Except in the British Commonwealth countries, it has been accomplished largely by nationalist groups employing terrorist tactics. They have been willing to disrupt the existing order to gain the right to guide their own future development, and the situation created by their action has been intolerable for the Europeans, who decided in large numbers to go back home. The assumption of control and responsibility thus often forced the underdeveloped country to forgo the benefits of trained personnel as well as other potential advantages of association with the mother country.

Behind the drive for independence lay some justifiable hopes and aspirations. These countries felt that they were handicapped by the colonial system and that once the foreign bureaucracy was removed, they would be free

(Continued on page 8)

SAND AND GRAVEL PRODUCTION

Despite their seemingly low status in the wealthy minerals family, sand and gravel constitute a sizable American industry. Nationally, the mining and dredging of these minerals produced shipments of 707 million tons in 1960, the second best year in the industry's history. These shipments, valued at \$721 million, ranked third among the 33 major nonmetallic minerals (other than fuels) and seventh among all minerals.

Sand and gravel, which are produced in every state, are commercially valuable for more than 50 uses. Attributes of weight, firmness, and unconsolidated mass coupled with widespread accessibility make them especially desirable to the construction industry as a low-cost bulk and base material. Other qualities of certain sands give them utility for numerous other industries as well. Important among these qualities are abrasiveness, porosity, and moderately high heat resistance.

Production tends to be more highly concentrated, either near centers of population or in areas of heavy construction. Nationally, more than 60 percent of volume emanates from 10 states. In all, there are nearly 27,000 dredging and mining operations employing nearly 50,000 persons.

Illinois Ranks Fourth

Although accounting for only a minor share (about 6 percent) of the total dollar volume of minerals in Illinois, sand and gravel production in the State is among the highest in the country. The \$36.2 million in shipments by producers here in 1960 (a record year) was eclipsed in only three states—California, Ohio, and Michigan.

Most of the sand and gravel in the State, particularly in the northern and eastern sections, was deposited either directly or indirectly by glacial sheets, the last of which receded about 12,000 years ago. Deposits are found to some extent in every county, although operations occur in only 72. As is true nationally, production in the State is located near the areas of heavy demand. More than 60 percent of the 1960 volume of 33.1 million tons came from nine counties. These nine counties, each of which produced more than a million tons during 1960, were LaSalle, Grundy, Kane, Lake, McHenry, Peoria, Tazewell, Will, and Winnebago. The dominant share of sand and gravel tonnage was produced in northern Illinois, especially along the Illinois, Fox, and Rock rivers; most of the remainder was produced in central Illinois and from the bars of the Mississippi, Ohio, and Wabash rivers.

More than four-fifths of the 170 producers in Illinois have fewer than 20 employees. Illinois miners and dredgers, however, are generally more productive than the industry nationally; for example, in 1960 the 1,814 workers here each produced an average 8.6 tons per hour compared with only 7.4 tons per man-hour for the industry as a whole. In addition to a higher level of mechanization, producers here are fortunate in having relatively purer deposits than in many states.

Major sand and gravel firms in the State, all with

more than 100 employees, include Consumers Company, Wedron Silica, Material Service Corporation, and Chicago Gravel, all of Chicago; Ottawa Silica, Ottawa; Elmhurst-Chicago Stone, Elmhurst; and McGrath Sand and Gravel, Lincoln.

Common Sand and Gravel

The industry can conveniently group its products into three major categories: gravel, common sand, and special sands. Most prevalent, as well as economically dominant, are gravel and common sand, which accounted for 51 percent and 39 percent, respectively, of the 33.1 million tons produced in the State during 1960. Common sand, consisting of fragments from assorted minerals and rocks, is most heavily utilized as a component of concrete. Gravel, made up of pebbles larger than one millimeter in diameter, is utilized as a concrete aggregate and as a roadstone. Together, they furnished in 1960 about 20 million tons for the road construction industry and about 8 million tons for the building industry. In addition, considerable quantities of Illinois common sand and gravel were utilized as "fill" (1.4 million tons) and as a roadbed ballast and wheel traction agent for railroads (170,000 tons).

Special Sands

Illinois has limited but valuable deposits of special (or industrial) sands. Although comprising only 8 percent of total Illinois tonnage, these sands were sold for more than \$7.5 million, or about 21 percent of the total value of shipments here. Altogether, Illinois accounted for about one-seventh of the total value of industrial sand production in 1960.

Most important of these special sands is silica sand, a commercial name for a clean sand made up almost entirely of grains of quartz. Mined in LaSalle and Ogle counties, silica has diverse end uses, ranging from an ingredient in pottery, enamels, and paints to an abrasive in powders and an agent in the fracture treatment for increasing oil well flow. Its main usage, however, is as a raw material in glassmaking.

Other special sands produced in the State include molding sand, which is actually a mixture of sand, clay, and other bonding materials. Found in natural deposits in Fayette, Bond, Bureau, Carroll, Kankakee, and Rock Island counties, it is also manufactured synthetically in some parts of the State.

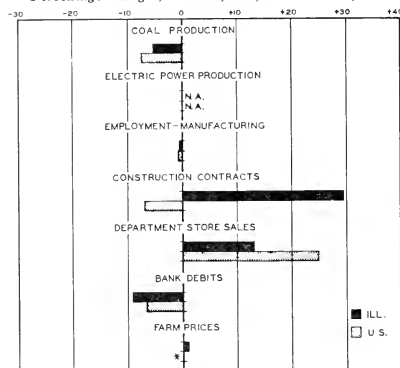
The industry here will continue to be bolstered by the rich reserves of industrial sands and future growth should be spurred somewhat by the expected acceleration in road construction, especially with much of the interstate highway system in Illinois yet to be completed. Suburban growth and shortsighted zoning actions have shut off nearby deposits in some states; Illinois, with substantial deposits reasonably accessible to major markets, should not be hampered in this respect, however.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS^a

Percentage changes, October, 1962, to November, 1962



^aNot seasonally adjusted. N. A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Nov. 1962 (1947-49 = 100)	Percentage change from	
		Oct. 1962	Nov. 1961
Electric power ¹	253.8	- 6.0	+ 1.5
Coal production ²	93.9	- 5.3	+ 6.6
Employment—manufacturing ³	100.7	- 0.4	+ 1.7
Weekly earnings—manufacturing ³	186.3 ^a	+ 0.7	+ 2.9
Dept. store sales in Chicago ⁴	116.0 ^{b,c}	+ 6.4	+ 7.4
Consumer prices in Chicago ⁵	105.0 ^e	0.0	+ 1.2
Construction contracts ⁶	319.3	+29.5	+10.0
Bank debits ⁷	263.7	- 9.1	+ 7.7
Farm prices ⁸	99.0	+ 1.0	+ 4.2
Life insurance sales (ordinary) ⁹	360.5	+ 1.4	- 1.0
Petroleum production ¹⁰	118.0	- 6.0	+ 0.6

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agency, Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted. ^c 1957-59 = 100.

UNITED STATES MONTHLY INDEXES

Item	Nov. 1962	Percentage change from	
		Oct. 1962	Nov. 1961
Personal income ¹	447.4 ^a	+ 0.4	+ 4.6
Manufacturing ¹	408.0 ^a	+ 1.5	+ 5.6
Sales.....	57.1 ^{b,c}	- 0.3	+ 4.6
New construction activity ⁴	24.8	- 4.2	+ 0.7
Private residential.....	19.8	- 2.9	+ 6.7
Public.....	18.5	-16.7	- 2.6
Foreign trade ⁵	19.4 ^d	- 8.4	-14.6
Merchandise exports.....	17.3 ^d	+ 7.2	+ 5.9
Merchandise imports.....	2.1 ^e	-58.3	-67.1
Excess of exports.....	1.5 ^b	+ 1.4	+ 9.9
Consumer credit outstanding ²	61.5 ^b	+ 1.2	+10.6
Total credit.....	47.3 ^b	+ 1.1	+ 8.5
Installment credit.....	39.5 ^b	+30.2	+ 2.8
Business loans ²	59.8 ^a		
Cash farm income ³			
Indexes (1947-49 = 100)			
Industrial production ²			
Combined index.....	120 ^{b,d}	0.0	+ 4.1
Durable manufactures.....	119 ^{b,d}	- 0.1	+ 5.0
Non-durable manufactures.....	121 ^{b,d}	+ 0.3	+ 3.3
Minerals.....	106 ^{b,d}	- 0.4	+ 1.0
Manufacturing employment ⁴	98 ^{a,e}	- 0.5	+ 1.0
Production workers.....	101 ^e	+ 0.2	- 0.5
Factory worker earnings ⁴	181 ^e	+ 0.4	+ 2.1
Average hours worked.....	184 ^e	+ 0.7	+ 1.6
Average weekly earnings.....	280	- 6.9	+ 6.0
Construction contracts ⁵	118 ^{a,d}	+ 7.3	+ 4.4
Department store sales ²	106 ^d	0.0	+ 1.3
Consumer price index ⁴			
Wholesale prices ⁴	101 ^d	+ 0.1	+ 0.7
All commodities.....	99 ^d	+ 0.6	+ 3.9
Farm products.....	101 ^d	- 0.2	+ 1.1
Foods.....	101 ^d	0.0	0.0
Other.....			
Farm prices ³	101 ^d	0.0	+ 2.0
Received by farmers.....	105 ^d	0.0	+ 1.9
Paid by farmers.....	80 ^f	0.0	+ 1.3
Parity ratio.....			

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b End of month. ^c Data for October, 1962, compared with September, 1962, and October, 1961. ^d 1957-59 = 100.

^e Revised. ^f Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1962					1961
	Dec. 29	Dec. 22	Dec. 15	Dec. 8	Dec. 1	Dec. 30
Production:						
Bituminous coal (daily avg.)	thous. of short tons.. 1,217	1,531	1,293	1,282	1,483	1,346
Electric power by utilities.	mil. of kw-hr. 16,435	17,560	18,009	17,005	16,699	15,738
Motor vehicles (Wards).	number in thous. 130	194	205	197	202	127
Petroleum (daily avg.)	thous. bbl. 7,362	7,340	7,341	7,335	7,313	7,384
Steel.....	1957-59=100... 92.1	100.6	98.3	99.7	100.7	113.0
Freight carloadings.....	thous. of cars.. 357	512	501	537	562	422
Department store sales	1957-59=100... 120	271	246	212	168	90
Commodity prices, wholesale:						
All commodities.....	1957-59=100... 100.6	100.5	100.4	100.4	100.4	100.4 ^a
Other than farm products and foods	1957-59=100... 100.7	100.7	100.7	100.7	100.7	100.9 ^a
22 commodities.....	1957-59=100... 92.7	92.5	92.4	93.1	92.9	97.9
Finance:						
Business loans.....	mil. of dol. 35,166	35,075	34,807	34,779	34,680	32,920
Failures, industrial and commercial	number..... 143	249	252	294	322	222

Source: Survey of Current Business, Weekly Supplements.

^a Monthly index for December, 1961.

RECENT ECONOMIC CHANGES

Imports Advance Faster Than Exports

Merchandise exports during the first nine months of 1962 rose to a record seasonally adjusted annual rate of \$20.8 billion, an increase of almost \$900 million over the same period of 1961. During the same time, merchandise imports climbed to a new high of \$16.1 billion, an increase of \$1.6 billion over 1961. Thus the merchandise export surplus at a seasonally adjusted annual rate amounted to only \$4.7 billion for the first nine months of 1962 as compared with \$5.4 billion for the same period of 1961.

In contrast to the rise in exports, which began late in 1961 and was reversed in the third quarter of 1962, the upturn in imports continued without interruption after the first quarter of 1961, with the third quarter of 1962 producing a new high of \$16.5 billion at a seasonally adjusted annual rate. This advance in total imports has coincided with the gradual upturn in the nation's gross output of goods since the last cyclical trough of early 1961, and has been stimulated by increased demand for industrial supplies and materials from abroad.

Comparison of Unemployment Levels

Reports on unemployment in other countries during the fifties have brought little comfort to Americans concerned with their country's economic well-being. A recent study by the Bureau of Labor Statistics into the differences between rates of unemployment in industrial countries has resulted in some interesting facts and conclusions. According to the study, rates of unemployment in the United States and other industrial countries are affected only to a moderate degree by differences in statistical procedures and definitions. After adjustment of such differences to United States concepts, the average rate of unemployment in this country in 1960 was 5.6 percent as against France's 1.9 percent, Germany's (F.R.) 1.0 percent, Great Britain's 2.4 percent, Italy's 4.3 percent,

Japan's 1.1 percent, and Sweden's 1.5 percent. The only major industrial nation of the free world having a higher rate was Canada, with 7.0 percent unemployed.

Unemployment in Germany and Italy, the countries with the highest unemployment rates in 1951, as indicated in the chart, declined sharply during the past decade whereas unemployment in the United States and Canada rose by stages from a relatively low level. Several factors have contributed to our higher rate of unemployment but virtually all of the countries which had lower rates than the United States differed from this country in two respects: (1) they experienced a considerably faster rate of economic growth during the fifties and (2) their workers enjoyed a somewhat more stable attachment to the job than workers in this country.

Adjustments in Agriculture

Basic changes are occurring in the farming industry as a result of rapid technological advances and a spreading urbanization which has brought about greater specialization and enlargement of farms. One important result of these changes has been the rise in aggregate output of farm products at an annual average rate of 2 percent. Another result is the increase in average incomes on a per capita or per farm basis in the past few years due to a decline in the number of farms and farm population.

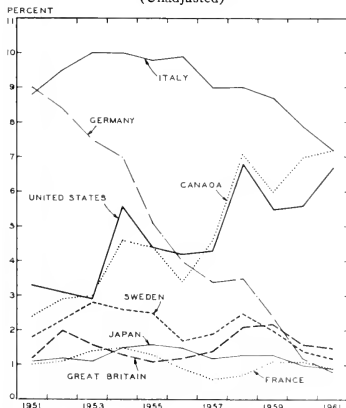
The long-term rise in aggregate output has been accompanied by a moderate advance in farm GNP of about 1.5 percent annually during the past two decades. This gain in farm GNP has been accompanied by an expansion in the stock of agricultural capital utilized and a drop in labor employed. As a consequence, farm GNP per dollar of investment has remained virtually stable during the past two decades, and farm GNP per hour of labor has shown an average advance of 5 percent in the past two decades and 7 percent in the last seven years. If capital and labor are considered together, farm GNP per unit of total input has risen at an average annual rate of slightly less than 2 percent in the past two decades and about 3 percent in the past seven years. This, it may be pointed out, is higher than the comparable rate for the nonfarm economy.

Personal Income Rises

Personal income in November was at a seasonally adjusted annual rate of \$447.5 billion, \$1.75 billion higher than in October, according to the United States Department of Commerce. More than half of the income rise came from a \$1.0 billion increase in wages and salaries of government employees; two-thirds of this advance was attributable to the pay raise for federal employees enacted by the last Congress. The other \$750 million advance in November was accounted for by small increases in the income of self-employed persons and in dividends, interest, and transfer payments. Private wages and salaries, which account for more than half of all personal income, totaled \$242 billion in November, the same as in October.

The main cause of the slackened rate at which personal income has been rising since early spring of 1962 is the leveling off in wage payments in the commodity-producing industries, the largest single source of personal income. In the first four months of 1962, when income rose nearly \$8 billion, payrolls in commodity-producing industries advanced \$3.3 billion; in the next seven months income rose \$9 billion, but wages and salaries in commodity-producing industries declined \$500 million.

RATES OF UNEMPLOYMENT, 1951-61
(Unadjusted)



Source: U.S. Bureau of Labor Statistics.

LABOR RELATIONS AND WAGE POLICY IN SWEDEN

T. L. JOHNSTON, Visiting Professor of Labor and Industrial Relations

The recent officially sponsored visit to the United States of the top labor and management leaders in Sweden, which included a seminar at the University of Illinois, has provided an opportunity to reflect on the experience of the "Country of the Middle Way" in the controversial areas of labor-management relations and wage policy.

Superficially, Sweden can offer some impressive indicators of collective bargaining affluence. She has the highest wages in Europe, there is provision in law for a minimum annual vacation of 18 working days, and her postwar record of industrial peace has been a remarkable one. Apart from major disputes in metalworking in 1945 and in the foodstuffs industry in 1953, there has been practically no wastage of man-hours through stoppages.

Employment has generally been brimful in the postwar years, apart from minor recessions, and in 1961 Swedish unemployment averaged 1.5 percent (adjusted to the United States definition). One of the recurrent postwar problems has rather been a chronic shortage of labor, which has reflected the lack of balance in the age composition of the population. The main sources for increasing the labor supply have proved to be immigrant workers and married women, and there is no immediate likelihood of the chronic shortage being overcome. The labor shortage has been significant both for the high investment ratio in Sweden and the rapid rate of increase in wage incomes.

Some other superficial factors invite the conclusion that Sweden is a special case. Her industry is very small scale by international standards, for the average industrial establishment employs only 41 workers. Her total labor force is somewhat less than 4 million, and the manual workers organized in the Confederation of Swedish Trade Unions (LO) total 1.5 million.

Again, Sweden was not involved in the last war. However, the rapid recovery and industrial re-equipping of West Germany, for example, no longer make it as easy to accept the argument that countries which avoided the war have enjoyed a long-term advantage by carrying over an intact apparatus of production to peacetime conditions.

Politically, Sweden has offered a picture of great stability since the Social Democratic Party came to power in 1932. That party has been there ever since, either alone or in uneasy coalition with other parties (e.g., the Farmers), and it shows no sign of having exhausted its mandate. Despite this Social Democratic dynasty, there is no doctrinaire socialism in Sweden, and the penchant for nationalization which typified the British Labor Party in the immediate postwar years, for example, has found no echo in Sweden. Government policy has consistently aimed at encouraging investment, private industry has enjoyed favorable investment allowances and write-off provisions for capital formation, and the trade unions have been persistent advocates of a high investment ratio.

Although Sweden has shared in the good average postwar performance of the West European economy, she has not shown the dynamism of recent French or German growth. She too has had her share of inflation. In an analysis published in 1961 by the Organization for European Economic Cooperation, which included a discussion of the role of wages in causing rising prices, Sweden was awarded the dubious accolade of being bracketed with Britain, the United States, the Netherlands, Norway, and

Denmark as countries in which excessive wage increases constituted both an important and an independent inflationary force. Sweden and the Netherlands were given some release from this indictment, however, because of the excess demand in their economies and the very favorable export demand, which weakened resistance to wage increases.

If Sweden's economic performance can thus be ascribed to special economic factors such as a manpower shortage and a buoyant demand for exports, and her welfare society to the stability of her political institutions, what is it that makes Sweden such a constant target for interested foreigners, anxious to glean crumbs of information and guidance about "correct" economic and social policies in democratic communities?

Organization of Labor Relations

The main features of the Swedish approach which attract attention are, first, the acceptance of countervailing power and strong, closely knit interest groups as a political and economic device, and, second, the flexibility and willingness these groups show to adapt and learn from experience through new forms of compromise agreements. The practice of labor relations and collective bargaining shows this system at work in a very clear way.

LO organizes its 1.5 million members in 41 unions on the industrial unionism principle. In the past the LO group has had its share of internal strife and jurisdictional conflicts, but in the 1930's LO undertook a major reform which established clear organizational principles. The issue of union autonomy, always a sensitive area of union administration, was resolved in favor of a strongly centralized system which makes the role of the LO executive a very powerful one, e.g., in wage bargaining.

Much of the pressure toward reorganization in LO came from the employers. The Swedish Employers' Confederation (SAF) has preached employer solidarity ever since it was formed in 1902, and it has matched these aspirations with a strongly centralized system of control. The 44 member federations delegate considerable powers over lockouts and the conduct of bargaining to SAF, in return for which they enjoy mutual protection through an insurance scheme and other financial benefits to meet the cost of any conflicts. SAF was instrumental in the move toward an industry-wide approach to organization of the labor market, and it has also tried to control the content of collective agreements by requiring its affiliates to submit proposed agreements to it for approval.

Both LO and SAF have been under strong pressure to develop a coherent and responsible system of labor relations by the threat of labor legislation. There is in fact little legislation in the controversial areas of labor-management relations. The positive right to organize is regulated by law, and a Collective Contracts Act governs procedures for concluding and enforcing collective agreements. A Labor Court was set up in 1928 to ensure that disputes about the interpretation of existing contracts were settled peacefully, in the last resort by the Court.

In order to prevent the spread of legislative controls to the actual substantive issues of bargaining, however, LO and SAF devised a series of codes in the 1930's which provide for private regulation of potential issues of conflict. Important among these are codes for negotiation procedures, layoffs and dismissals, forms of direct action,

and the treatment of disputes that threaten essential public services. This private industrial jurisprudence was essentially a *quid pro quo*. The government undertook implicitly to stand outside collective bargaining when the unions and employers devised these codes and showed they could make arrangements for regulating their internal government and their mutual relations in a peaceful and positive way.

It is important to note that these institutional reforms predated an era of full employment. In very large measure SAF and LO had established their right to run the labor market without direct government pressure before the critical issues of full employment wage bargaining came to prominence at the end of World War II.

Need for Policy Coordination

In the immediate postwar years, however, there was considerable disagreement and obscurity about the appropriate spheres of influence of government and the interest groups. The labor market groups accepted that wage policy had a positive part to play in the wider context of monetary, fiscal, and price policies, but both sides were frequently extremely critical of government economic policy and argued that a privately administered wage policy, based on a consensus of opinion between LO and SAF, could only be effective within the broader framework of a total economic policy which did not allow excess demand to undermine any attempt at a coordinated wage policy. The concept of strong organizations, in the labor market, among farmers, and in the consumers' co-operative movement, which formed the foundation of the Swedish system, was not in fact clearly integrated with the government's broader concern for the national interest.

In the labor market itself considerable confusion in postwar bargaining was caused by the avowed LO policy of solidarity in wages. When it was formulated in the interwar years this was mainly an egalitarian policy, intended for closing differentials between high and low wage groups within the labor movement. Latterly, however, it has come to mean something akin to a job evaluation approach to wage structure, for LO now argues that wage differences should be based on the nature of the input of effort by the worker. Apart from this ideological view of an appropriate wage structure, LO expresses doubts about the efficacy of wage differentials as an incentive to labor mobility. LO regards relative wages as a sluggish method of allocating the labor force.

This preoccupation with solidarity dominated many of the early postwar wage rounds in Sweden. Until 1956 these rounds, which tended to recur annually, were not based on any systematic program for determining the distribution of incomes within the economy, and took the form of a mad scramble for a favorable place in the queue. As one Swedish economist put it, the Swedish economy had a very strong inflationary bias because the various pressure groups were so strongly organized, and only a small proportion of the population was left out and could be cheated!

Since 1956 LO and SAF have turned to comprehensive master agreements as a new way of controlling wage changes. Since then one- or two-year central agreements have been concluded which attempt to govern the overall rate of increase of earnings. Initially, such agreements were rigid in character, but they have been made increasingly flexible by providing for industry and plant based bargaining about the allocation of the average wage increases and by designating particular exceptions of groups which were lagging behind in their average wage increases (this to meet LO's desire for solidarity).

Problem of Wage Drift

This attempt to devise a centralized system of wage determination which is consistent with "the national interest," but which at the same time retains some responsibility for wage fixing at plant level, has suffered from one major defect — wage drift. Wage drift, by which the Swedes mean the tendency for wage rates and earnings to drift away (upward) from the levels intended through central bargaining, has proved to be the Achilles heel of wage determination in Sweden (and in other countries which try to marry a national consensus, which must be aggregative in character, to the local conditions of a multitude of particular labor markets).

Part of the explanation of wage drift in Sweden stems from deliberate policy. Both employers and unions reverse incentive wage systems, and in manufacturing industry over 60 percent of hours worked are paid on a performance basis. Piecework prices are set at the plant level, and this means that central control over earnings must be modified to allow for local differentiation.

Another part of wage drift, however, and the one that is morally condemned by LO and SAF, arises from the shortage of labor endemic to the economy and simply reflects attempts by employers to retain workers by offering higher wages. The prevailing boom conditions, excess demand, and buoyant exports have made wage drift the *bête noire* of Swedish attempts to evolve a privately administered national wage policy. The paradoxical conclusion from this experience is therefore that the strongly integrated labor market organizations have not been able to control the actual rate of increase in wages. Wage drift has averaged about 4 percent of earnings per annum, varying with the intensity of demand for labor in particular years.

The solution to the wage drift problem can be sought in two directions. The approach being practiced in Sweden by the labor market organizations is to tighten up systems of wage payment, train supervisors more effectively in the implementation of wage systems, and evolve a more active employment policy.

Dynamic Labor Market Policy

This last has become the latest Swedish policy to attract international attention. The Swedish trade union economists, an articulate and inventive group, have long recognized that measures to promote labor mobility are an important part of a full employment policy. There are a number of reasons for the emphasis on labor market devices. First, the LO wage policy of solidarity is skeptical about the efficacy of wage differentials in allocating labor, and regards stimuli and inducements to adapt as more appropriate. Second, it is argued that on ideological grounds workers should be free to choose their occupations without being obstructed by such rigidities as lack of training and imperfect knowledge of alternative job opportunities. Lastly, LO takes the view that an active labor market policy will help to avoid inflation under full employment by moving workers to expanding sectors without using higher wages as an inducement. In any event, higher wages may serve simply to retain, rather than attract, labor.

During the moderate recession which began in 1957 labor market policy in Sweden did in fact abandon the narrow and traditional view that it was primarily an anticyclical device aimed at reducing unemployment. The new concept emphasized labor mobility as a more permanent feature of policy and the recession was used as the occasion to begin experimenting with devices to promote

mobility and create employment. Training and retraining schemes, measures to encourage adaptability through travel and removal allowances, family allowances, temporary housing, and housing subsidies—in some cases paid out of funds that would otherwise have been disbursed in unemployment benefits—are now regarded as essential features of this "new" labor market policy.

In this sense the environment in Sweden differs from that in America. The Swedes have evolved their new policy to retrain and redeploy their labor force from what is predominantly a full employment base in accordance with the concept of labor force adjustment at the margin. This policy is regarded as having one of its main uses in preventing inflationary wage increases in a situation of high aggregate demand and in helping the economy to achieve the structure which best promotes growth. Policy in the United States, where unemployment is very much higher, tends to regard manpower development and retraining as alternative, rather than complementary, to a policy aiming at a high level of activity through appropriate monetary and fiscal policies.

Experience of the scheme so far has been encouraging. The new policy played a significant part in reallocating labor during the 1957-58 recession and in countering the threat of recession in 1962. It has now proved itself sufficiently to be given the role the trade union economists have long wanted it to have, as a permanent part of the policy for using resources efficiently in a noninflationary, full employment economy.

The other solution to the wage drift problem raises wider issues. It has already been noted that postwar policy in Sweden has been bedeviled by differences of view about the appropriate spheres of influence of interest groups and the government. It can be argued that the most effective way to tackle the wage drift issue is to ensure that the economy is never overheated, but run at a level which does not encourage that strain on resources of which wage drift is, at least in part, an important manifestation. The need for coordination of public and private policy then becomes evident.

The Impact of Central Planning

What recent Swedish experience may imply is that the time has now come to move away from the luxurious democratic device of strong self-governing pressure groups toward a more explicitly planned allocation of resources in which the government plays a more prominent part. This may be the real significance behind the recent decision in Sweden to set up a National Planning Council, broadly representative of industry, the labor market, agriculture, commerce, and the cooperative movement, with the government acting as the coordinator in deciding broad priorities for decisions about public and private investment and consumption.

Planning is in the European air these days, and it is too early to know how far the new Planning Council will come to invade the traditional sovereignties of such groups as LO and SAF. Implicitly, at least, there is a potential challenge to the arrangements practiced hitherto. No doubt Swedish planning will work flexibly, through and along with the private interest groups. The master wage agreements of recent years indicate that LO and SAF are willing to play their part in fitting the labor market into a wider consensus, but the wage-drift difficulty suggests that the consensus may now have to become more planned than it has been before.

Swedish experience raises a fundamental question, one which should surely be pondered in the United States as

well, where the private groups are so much more decentralized than in Sweden. Can the labor market ultimately be left free, even where strong private groups have been willing to try to fit their wage-fixing procedures to national economic policy? Can the long-run national economic interest only be promoted in a way that is acceptable to the community by bringing the government explicitly into the arena in which the allocation of resources in a democracy is determined? This question is being asked in all the European countries that are trying to evolve some form of consensus for growth.

Swedish experience suggests that, unless there is some explicit dovetailing of collective bargaining with other parts of economic decision-making, private interest organizations, however strong and articulate, may not be able to carry the strain of the problems associated with a fully employed labor force. Coordination of monetary, fiscal, international trade, price, and wage policies may have to become much more deliberate.

Such a possibility raises problems for both the institutionalists and the model builders. The former may have to change their view of what "free" collective bargaining means, and the latter may need to give greater thought to the place of corporate bargaining groups in national economic plans.

How The World Shapes Up

(Continued from page 2)

to develop and grow as the industrial countries have. A long-run prospect of this kind is not wholly unrealistic, so the incurring of short-run losses seemed reasonable.

Unfortunately for this view, there is no automatic process of growth that can be depended upon. Neither they nor we know of any sure plan or procedure to guarantee quick and steady results. They lack both the real capital that is required and the technical and administrative knowledge of how to create it. The processes of educating a people, of acquiring skills, and of accumulating capital are painfully slow. These countries can make some rather easy gains by establishing the cast-off industries of the developed countries for low-wage production. But these cannot solve the problem. Furthermore, a population in transition is typically unstable, and economic frustration interacts with political instability to hamper progress. One may even suspect that each major political change will continue to discard some of the good as well as some of the bad programs of the previous government.

What these countries are finding is that their freedom of action is largely illusory in the economic sphere. They remain dependent upon others for capital and for technical instruction. Their new industries often face worldwide overcapacity, so that they have to bargain on product prices as well as on credit terms. The industrial countries have already agreed that aid should be offered, but aid and development programs are not likely to reach the point of providing a complete solution.

Long-term programs alone offer promise of success. The fact must be faced that progress can hardly be as autonomous, as self-sustaining, or as rapid as the new nations have hoped. It is to some extent promoted and to some extent hampered by the Cold War. There is every prospect, barring nuclear destruction, that the economic gap between the world's rich north and its poor south will continue to widen through the rest of the century.

VLB

BUSINESS BRIEFS

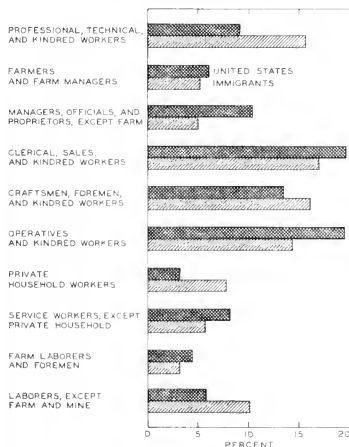
PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Occupations of Immigrants

Since the end of World War II about one out of every three immigrants who have reported their occupations has indicated that his occupation is in a professional, technical, or skilled category. This coincides with the present needs of our economy and also reflects some of the changes made in the Immigration and Nationality Act of 1952. It contrasts with the previous half-century of immigration when the nation's needs for unskilled labor in such industries as coal mining, steel, apparel, meat packing, and transportation were predominant.

Of the 1.7 million immigrants who reported their occupations, about 16 percent were in the professional and technical categories as compared with only about 9 percent of United States workers. In addition 16 percent were classified as skilled craftsmen as compared with only 13.5 percent of American employees (see chart). The proportion of all immigrant workers classified as professional, technical, and skilled has been higher than the percentage of American workers classified in these occupations for every year since 1949. This contribution to the country's work force is best illustrated by the 133,000 immigrants who have entered the United States since 1952 with occupations similar to those classified as critical (considered to be in short supply by the Technical Committee on Critical Occupations of the United States Department of Labor). Such critical occupations as engineering, physics, nursing, and tool and die making make up this special category. Moreover, a higher proportion of immigrants are in the prime years of their working lives.

OCCUPATIONAL DISTRIBUTION OF WORKERS
(Average, 1947-61)



Source: U.S. Department of Labor

Local Governments

At the beginning of 1962 there were 91,185 local governments in the United States; of these 34,678 were school districts. This new count of governments shows that the number of school districts has been cut by nearly one-third during the past five years, mainly as a result of widespread efforts at reorganization and consolidation. On the other hand, municipalities and special district governments have become more numerous, and there has been little change in county and township governments. Following is a summary comparison of national totals by type of unit for 1962 with related numbers (including Alaska and Hawaii) for 1957 and 1952.

Type of local government	1962	1957	1952
Total.....	91,185	102,341	116,756
Counties.....	3,043	3,050	3,052
Municipalities.....	17,997	17,215	16,807
Townships.....	17,144	17,198	17,202
School districts.....	34,678	50,454	67,355
Special districts.....	18,323	14,424	12,340

County and City Data Book Released

The Bureau of the Census recently released the 1962 *County and City Data Book*. This book brings together statistical information for counties, cities, and standard metropolitan statistical areas and presents complete definitions of each urbanized area. The material presented in the new *Data Book* was selected and summarized primarily from the latest censuses of population; housing; agriculture; retail, wholesale, and service trades; manufactures; mineral industries; and governments conducted by the Census Bureau. In addition it includes statistics from other government and private agencies on such subjects as births, deaths, marriages, votes cast for president, bank deposits, electric bills, hospitals, and climate. Also included is a map for each state showing counties and standard metropolitan statistical areas and all cities of 25,000 inhabitants or more. Copies of this book may be obtained for \$5.25 (clothbound) from the Government Printing Office, Washington 25, D. C.

Debt of State and Local Governments

The long-term debt of state and local governments was \$77.4 billion at the end of fiscal year 1962. Of this amount \$55.9 billion was owed by local governments and the other \$21.5 billion by state governments. In addition to this long-term debt, there was \$3.5 billion of short-term debt in the form of interest-bearing obligations payable within one year from date of issue.

The largest component of the long-term debt was that issued to finance educational facilities. Of the \$23.1 billion issued for education, 83 percent was issued by local governments; and of the remaining 17 percent, half was spent by the states on institutions of higher learning. The next largest component of debt was the \$13.8 billion issued for street and highway purposes, with the states accounting for more than two-thirds of this total. Local utilities accounted for \$12.6 billion. State and local governments accumulated the remaining \$27.9 billion in a variety of ways: for sewerage facilities, \$5.3 billion; for housing and urban renewal, \$5.2 billion; for hospitals, \$1.2 billion; for airports, \$1.2 billion; for port and terminal facilities, nearly \$1.1 billion; and for state veterans bonuses, \$900 million.

LOCAL ILLINOIS DEVELOPMENTS

Illinois Crop Production

Crops produced in Illinois in 1962 are valued at a preliminary figure of \$1.4 billion, 4 percent more than the crops produced in 1961.

A record corn crop of 686 million bushels was 9 percent larger than the 1961 crop and 1 percent above the previous record set in 1960. The yield per acre, 83 bushels, surpassed last year's high by 6 bushels an acre. The number of acres devoted to corn was held down for the second consecutive year by participation in the feed-grain program; the total acreage in 1962 was 8.3 million.

Another record was set by this year's soybean crop of 159 million bushels, compared with the previous high of 157 million bushels produced last year. The 1962 yield of 28.5 bushels, grown on 5.6 million acres, was equal to the record yields of 1956 and 1961.

Oat and wheat production totaled 81 million and 50 million bushels, respectively, in 1962. Both of these crops experienced declines from 1961 in both acreage and yields but total output remained above the 1952-61 average.

Chicago's Water System Improved

A new Central District Filtration Plant which will supply filtered water to 3 million persons in Chicago north of 39th Street and in several suburbs is scheduled to begin operation in 1963. The 1.5 million persons living in the southern portion of the city and neighboring suburbs are already being supplied by the South District

Filtration Plant, which is scheduled for expansion in the city's current water works capital improvement program.

The Central District Filtration Plant is located on 61 acres of land-fill just north of Navy Pier. Tunnels will transport water from intake cribs in Lake Michigan to the plant, where the water will be treated and then relayed to pumping stations which will distribute it to users. A six-mile tunnel will connect the plant with the North District distribution system. New equipment is being installed in ten pumping stations and 125 miles of water mains are being constructed.

When the current program is completed, Chicago's water system will have a peak capacity of 2.5 billion gallons a day, which will be sufficient to meet the city's water needs to 1980. The system is financed from revenues and revenue bonds which are retired from the annual water charge.

Public Work Aid

The first Illinois project to receive assistance under the new \$400 million federal Public Works Acceleration Act was improvement of recreational facilities in the Shawnee National Forest. A total of \$400,000 was to be spent in the Harrisburg and Cairo regions and in the forest areas in Williamson, Jackson, and Union counties. Among other things this amount was to provide 15,000 man-hours of labor. Through November a total of 425 men had been employed in thinning stands of timber, constructing parking sites, improving roads in recreation areas, and building firebreaks.

As of November 28 more than 135 Illinois communities had made application for federal public works acceleration aid. Many of them are trying to get help for water and sewer projects and for various flood control projects for which some money has already been budgeted.

Illinois Vital Statistics

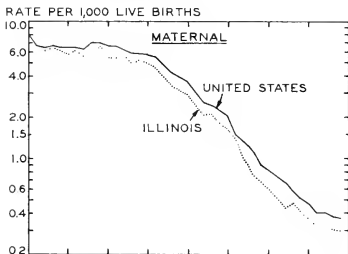
Maternal and infant death rates in Illinois are lower than the rates for the United States and have been lower for a number of years (see chart). The Illinois Department of Public Health reports that the number of maternal deaths dropped from 3.0 for every 1,000 live births in 1940 to 0.3 for every 1,000 births in 1959.

The infant death rate has changed very little in the State during the past 10-year period. However, great improvement had been shown in the three preceding decades. The number of infant deaths per 1,000 live births dropped from 76.1 in 1922 to 25.6 in 1950 and to 25.0 in 1959.

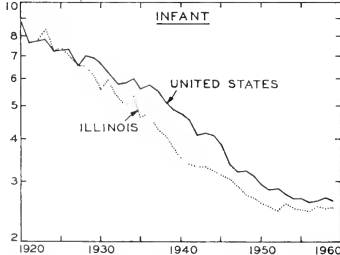
In the 1950's pneumonia was on the increase as a cause of infant death, accounting for 13 percent of the deaths among white infants and 33 percent among the nonwhite in 1959. From ages 1 to 4, accidents accounted for the largest number of deaths and influenza and pneumonia combined caused the second largest number.

Accidents also ranked as the leading cause of death among children 5 to 14 years of age, with cancer the second leading cause. Tuberculosis was among the leading causes for the first half of the decade only. Accidents, homicide, and suicide accounted for over half of the deaths in the 15 to 24 age group, rising from 51 percent in 1950 to a high of 62 percent in 1958 and 60 percent in 1959. Tuberculosis dropped from the second leading cause of death in 1950 to 10th in 1955 and since then has not been one of the leading causes.

DEATH RATES, 1920-59



RATE PER 1,000 LIVE BIRTHS



Source: Illinois Department of Public Health, *Vital Statistics, Illinois, 1950-1959*, Vol. IV, pp. 1 and 3.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1962

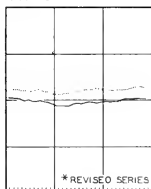
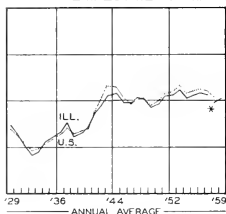
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
	Oct., 1962	\$25,290 ^a	1,352,377 ^a	\$675,183 ^a		\$23,052 ^a	\$19,610 ^a
Percentage change from	Nov., 1961	-38 2 -13 9	-0 0 +4.8	+12 2 +14.3	+13 +7	-9 1 +7 7	+7.1 -15.4
NORTHERN ILLINOIS							
Chicago							
	Oct., 1962	\$17,091	973,077	\$482,473		\$21,330	\$16,887
Percentage change from	Nov., 1961	-42 6 -21 5	-0 6 +2.8	+14.4 +14 0	+13 +7	-9 6 +7 6	+6.3 -17 0
Aurora							
	Oct., 1962	\$ 708	n.a.	\$11,349		\$ 91	\$ 170
Percentage change from	Nov., 1961	-32.1 +22 5		+4 5 +23 0	+18 +4	-2 6 +10 6	-5.0 -9 0
Elgin							
	Oct., 1962	\$ 151	n.a.	\$ 8,199		\$ 57	\$ 174
Percentage change from	Nov., 1961	-69 6 -79 0		+11.2 +28.8	n.a.	-2 3 +0 2	+1.1 -16 5
Joliet							
	Oct., 1962	\$ 760	n.a.	\$13,585		\$ 102	\$ 142
Percentage change from	Nov., 1961	+9 6 -23 3		+8.7 +14.8	+12 -4	+0 8 +6 7	+22.4 -3 3
Kankakee							
	Oct., 1962	\$ 265	n.a.	\$ 6,518		n.a.	\$ 75
Percentage change from	Nov., 1961	-33 6 +115.4		+5.9 -5 0	n.a.		+0.1 -7 5
Rock Island-Moline							
	Oct., 1962	\$ 1,211	31,207	\$13,407		\$ 142 ^b	\$ 212
Percentage change from	Nov., 1961	+0 7 +15.4	+1 8 +9.8 ^c	+3.4 +12.9	n.a.	+2 0 +13 5	+34.1 -8.3
Rockford							
	Oct., 1962	\$ 1,035	60,998 ^c	\$24,685		\$ 217	\$ 292
Percentage change from	Nov., 1961	-33.7 +4 1	+9 3 +4 3	+14.1 +17.8	+12 ^e +5 ^e	-1 8 +5.3	+16 7 -4.3
CENTRAL ILLINOIS							
Bloomington							
	Oct., 1962	n.a.	14,114	\$ 7,681		\$ 101	\$ 130
Percentage change from	Nov., 1961		+1 2 +17.3	+8.4 +14.9	n.a.	+6 6 +16 1	-12.9 +4.1
Champaign-Urbana							
	Oct., 1962	\$ 464	19,075	\$12,499		\$ 103	\$ 142
Percentage change from	Nov., 1961	-6 0 +97.4	-1 2 +15.3	+10.6 +19.0	n.a.	-10.8 +10 3	-6 0 -12.3
Danville							
	Oct., 1962	\$ 199	20,364	\$ 7,684		\$ 61	\$ 87
Percentage change from	Nov., 1961	-51 6 +103.1	+3 3 +18.5	+7.1 +13.9	+16 +7	-6 1 +10 8	+8 1 +0 7
Decatur							
	Oct., 1962	\$ 249	40,209	\$14,171		\$ 152	\$ 144
Percentage change from	Nov., 1961	-56 0 +91.5	+1.2 +16 2	+6.5 +17.6	+7 ^e +6 ^e	-4 8 +17 8	+12 7 +1 1
Galesburg							
	Oct., 1962	\$ 239	10,980	\$ 5,376		n.a.	\$ 52
Percentage change from	Nov., 1961	+61 8 +95.9	+1 6 +15.4	-0.8 +11.7	n.a.		+15 5 -12.8
Peoria							
	Oct., 1962	\$ 838	65,275 ^e	\$21,318		\$ 279	\$ 412
Percentage change from	Nov., 1961	+45.1 -30 1	-0.1 +13 5	+7.3 +13.3	0 +3	-5 0 +6 4	+22.8 +1 3
Quincy							
	Oct., 1962	\$ 87	14,889	\$ 6,608		\$ 63	\$ 91
Percentage change from	Nov., 1961	-91 7 -58 4	+3 4 +0 7	+0 5 +11.7	n.a.	+1 5 +5 9	+12.4 -1.4
Springfield							
	Oct., 1962	\$ 1,159	45,836	\$17,697		\$ 154	\$ 389
Percentage change from	Nov., 1961	+33.1 +73 0	-0.4 +3.5	+6.7 +16.8	+13 ^e +8 ^e	+7 6 +12 0	+14 0 +2 3
SOUTHERN ILLINOIS							
East St. Louis							
	Oct., 1962	\$ 163	16,979	\$10,144		\$ 150	\$ 86
Percentage change from	Nov., 1961	+31.8 -28 2	-3.1 +0 6	+5.2 +13.3	n.a.	+0 8 +7 2	+13.9 +2.8
Alton							
	Oct., 1962	\$ 546	25,455	\$ 5,814		\$ 51	\$ 50
Percentage change from	Nov., 1961	+269 6 +213 8	-4 6 +6.3	+2 0 +8 6	n.a.	-0 2 +7 6	+32.3 -3.9
Belleville							
	Oct., 1962	\$ 125	13,919	\$ 5,974		n.a.	\$ 76
Percentage change from	Nov., 1961	-91 0 +40 4	+2 6 +20 7	+3 8 +15.8	n.a.		+33.2 +1 0

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for October, 1962. Comparisons relate to September, 1962, and October, 1961. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending December 7, 1962, and December 8, 1961.

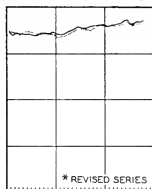
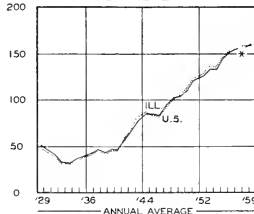
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

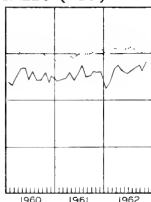
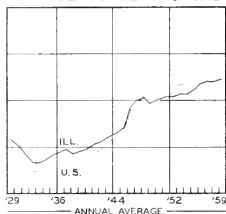
EMPLOYMENT-MANUFACTURING



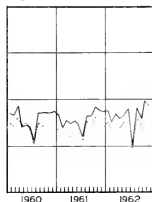
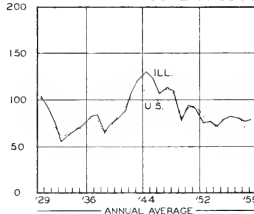
AVERAGE WEEKLY EARNINGS-MANUFACTURING



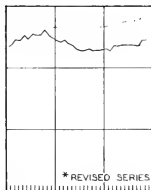
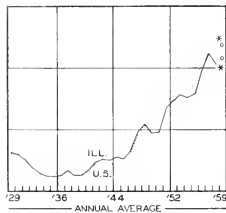
DEPARTMENT STORE SALES (ADJ.)



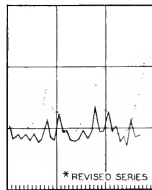
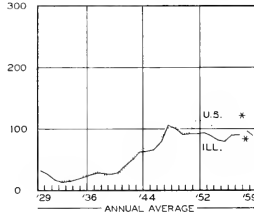
COAL PRODUCTION



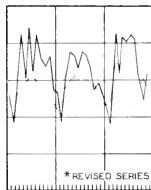
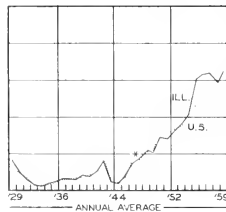
BUSINESS LOANS



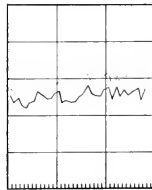
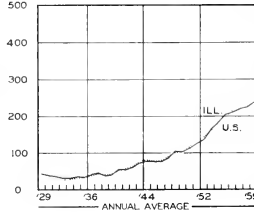
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 20

LIBRARY

FEBRUARY, 1963

NUMBER 2

HIGHLIGHTS OF BUSINESS IN JANUARY

Caution and uncertainty marked the economy in January, as they have for the past several months. Electric power production showed another increase, because of the weather; petroleum output was somewhat higher; and the steel industry continued to mark up very modest gains until severe winter weather cut production toward the end of the month. At that time, little sign had been seen of the hoped-for upturn in steel orders. Automobile manufacturers assembled 687,433 cars, only slightly less than the record for January. The seasonally adjusted index of industrial production remained at 119 (1957-59 = 100).

Department store sales dropped, after seasonal adjustment, from 117 percent of the 1957-59 average to an estimated 114 percent. Retail sales slipped fractionally from the December level to \$20 billion. A strong factor in the maintenance of retail sales was the high level of auto sales, which set a record for the month, surpassing even January of 1955, the industry's boom year.

Construction Activity Maintained

The value of new construction put in place in January totaled \$4.3 billion, down from \$4.9 billion in December. However, the decline was less than expected, and the seasonally adjusted annual rate indicated that building last month had risen slightly over the month before. The advance over January, 1962, amounted to 6 percent.

Spending for new private construction dropped a less-than-seasonal 8 percent to \$3.3 billion. The change in this component mainly reflected the fact that nonfarm residential building, which accounts for more than half of private construction, showed greater strength in January than it usually does. In comparison with January, 1962, nearly all types of private construction made gains — residential, 14 percent; nonresidential, 4 percent; and public utilities, 6 percent.

Balance of Payments Somewhat Improved

Preliminary data for the second half of 1962 indicate that even though there was a minor improvement in our adverse balance of payments in the fourth quarter, the second-half deficit still amounted to \$1.3 billion. For 1962 as a whole, the cut in holdings of gold and convertible currencies and the increase of United States short-term liabilities totaled \$2.0 billion, compared with \$2.5 billion in 1961 and \$3.9 billion in 1960.

An important factor in the contraction of the adverse balance was a reduction of \$1.3 billion in the net outflow

of private American capital, particularly short-term capital. Another item of \$665 million consisted of advance repayments received from France, Italy, and Sweden on postwar credits. Net military outlays were also reduced. On the debit side of the ledger was a continuation of the decline in the favorable trade balance which began in mid-1961 in response to our recovery from recession. Exports exceeded imports by only \$1.8 billion in the second half of 1962, compared with \$3.0 billion in the first half of 1961.

Manufacturers' Sales, Orders Off

Sales by manufacturers were down, after seasonal adjustment, from \$33.9 billion to \$33.6 billion, principally because of lower sales of primary and fabricated metals, lumber, furniture, and machinery. Unadjusted sales exceeded new orders for the tenth month and reduced the order backlog to \$45.2 billion, the lowest level since January, 1961.

Manufacturers' new orders also dropped in December for the second month, falling 2.5 percent from November to an adjusted \$32.9 billion. About two-thirds of the decline was in durable goods, particularly fabricated metals, nonelectrical machinery, and transportation equipment. Steel and electrical machinery orders advanced.

Stocks held by manufacturers increased \$300 million during December to \$57.5 billion, with about 70 percent of the increase occurring in nondurable goods. As a result of the opposing changes in sales and inventories, the stock-sales ratio rose from 1.69 to 1.71.

Consumer Credit Up Again

Consumers added \$447 million to their instalment debt in December after seasonal adjustment, somewhat less than in November. The chief factor in the drop from the month before was a contraction in new credit for automobiles; instalment debt on cars was up \$160 million, only about half as much as in the previous month. A smaller cut occurred in personal loans, the third largest component of instalment debt, in which the increase was \$110 million. Instalment financing of consumer goods other than cars, in contrast, rose \$176 million.

All components of noninstalment credit rose small amounts. The total increase in consumer credit was \$586 million, equivalent to an annual rate of \$7 billion. Total short-term debt at the end of December had reached \$63.4 billion, an advance of \$5.8 billion over December 31, 1961.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The Review will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Problems of Development

The world is full of "grand designs." Every continent or subcontinent has produced at least one. Each calls for unification and control of a specified area under the proponent's leadership. Some are global or nearly so in scope. Each speaks with the voice of liberty; and "freeing" the people from whatever is supposed to hold them enthralled is supposed also to lead to the realization of their economic hopes and aspirations.

The chances of success for any of these grandiose schemes are not high, and they are certainly minimal for those originating in underdeveloped countries that lack the capacity for success in meeting their economic goals. Many of these countries have been freed from colonial rule in recent years. They have exorcised the devil of "foreign exploitation" but have not yet fully learned how effectively "free markets" can exploit the weak.

Having gained the status of self-government, they feel they must pretend to be strong and all-knowing. But playing dictator and engaging in petty imperialist ventures does not create new employment opportunities for people who have been engaged in primitive tasks. The problem persists. So economic failure may lead to political upset, and this in turn may frustrate economic progress. It is necessary to consider where the realities of their position in the world economy permit independent action and where they require cooperation.

Money and Finance

One place where independence may be wise for a developing country is in having control of its own currency. Reliance on a restricted money supply provided by a foreign authority may impose serious obstacles. It prevents exchange rate adjustments; it renders difficult control of capital flows and may channel savings out of the country. The experience of Northern Ireland illustrates the point. However, a monetary system without reasonable stability may be even worse. So the minimum safeguards required in negotiating arrangements with the International Monetary Fund and other world agencies are generally in a country's own interests.

Setting up an adequate financial structure is difficult, but once it is achieved, consistent expansionary policies may be pursued. Credit may be used to finance many if not all of the productive enterprises that have the skills and abilities to afford reasonable prospect of repayment.

The Japanese example speaks very clearly in favor of such a policy. With substantial initial success, the returns on past loans help keep the over-all credit expansion in hand.

Some increase in prices is likely under these conditions, but a small "measure of inflation" is not necessarily harmful. What is needed is to get production moving up faster than population and to channel a larger proportion of output into investment. The price increase helps by restricting increases in consumption, so that saving is forced to the benefit of capital accumulation.

If rising imports result in too great a loss of foreign exchange, it may be necessary to seek a remedy via devaluation. This has disadvantages, since capital imports become more costly, but this cost need not be heavy if exports are sold at world prices and capital imports are financed by grants or loans in foreign currencies. On the other hand, devaluation focuses demand on domestic industry, and the general pushing up of import prices has advantages over other ways of protecting infant industries against foreign competition. Also, the shift in price relationships tends to redirect enterprise from traditional lines to the new industries desired.

Both inflation and devaluation, in other words, may be regarded as appropriate policies for economic development, provided it be kept in mind that if either progresses too rapidly, it is likely to be disruptive. In deciding the optimum pace, relations with other countries are a primary consideration. If other countries are antagonized, and retaliate or discriminate in various ways, the policy is likely to be self-defeating. Hence, underdeveloped countries cannot lightly contemplate loss of support and are obliged to sustain cooperation as far as possible.

Commodity Output and Prices

As long as attention is confined to financial aspects, the problems appear to be manageable if not altogether simple. Much more recalcitrant are the underlying problems of employment, production, and distribution. As a rule, production has been concentrated in one or a few primary commodities. Agriculture, the main pursuit, is usually not diversified or efficient enough to provide an adequate diet. Opportunities for expanding output are great, as they are in other countries too, so expanding supplies quickly put prices under pressure. The relative decline experienced in the past decade has been severe. But demand is inelastic, and lowering prices does not bring correspondingly larger volume. Even in the developed countries, increasing efficiency has been making agricultural surpluses the rule, and the political situation that develops with surpluses tends to doom free entry of competing products from abroad.

Attempts to solve these problems by negotiating commodity agreements will probably be intensified. A start has been made in the case of wheat, but this is a special case. For a number of commodities, the producing countries will try to organize cartels to reverse the downturn in prices; but even with the cooperation of consuming countries, such price-fixing agreements are hard to enforce. Each proposal creates a bargaining situation in which both producers and consumers are seated at the conference table. Several factors tend to weaken the bargaining position of the underdeveloped countries—the existence of substantial excess capacity, acute shortages of capital and foreign exchange, the need to eliminate or minimize trade barriers, and the desire to maintain the flow of grants and other aid. The international agen-

(Continued on page 8)

ZINC AND LEAD

Though neither the most abundant nor the most valuable of metals, zinc and lead are widely used by American industry. These versatile minerals, which together find application in some 2,000 American products, are essential in many uses for which they have few substitutes.

The United States ranked first internationally in mine output of zinc and second in lead during 1961. During that year, the nation's mines recovered 262,000 short tons of lead and 464,000 short tons of zinc.

Both lead and zinc—which are often found in the same ores—are usually concentrated to some extent by smelters in or near mining regions. Lead as base bullion is frequently shipped to industrial centers for further refining. Zinc, which is processed in about 20 large smelters located mainly in eight widely scattered states (including Illinois), generally moves to consuming areas in slabs of about 55 pounds. In all, some 847,000 short tons of slab zinc were produced in 1961 and another 55,000 short tons were added by about 15 smaller scrap processors. During the same year, nearly 240 primary and scrap lead refineries turned out about 925,000 short tons of lead, nearly half of it coming from scrap supplies. The output by American smelters is larger than the output from American mines because an increasing proportion of ores smelted here is from lower-cost imports brought in to meet the sharply rising postwar demand.

Colorful Illinois History

Lead mining has a colorful history in Illinois. The area around Galena—named for the most common lead ore—was the nation's principal lead mining region in the early 1800's. Although the first mining by white men in the Galena area occurred in the 1820's, lead was extracted there by Indians as much as a century earlier.

The Galena region began to thrive after the Indians ceded 15 square miles to the government for mining in 1816. In 1823, the first systematic mining by experienced miners began, and production soon became so important that one of the first railroads built out of Chicago was a link with Galena. By 1845, Galena mines produced about 90 percent of the nation's lead output.

The state's eminence as a lead producer declined sharply after 1850 as the rich deposits in the shallower mines diminished and as miners moved on to newer ore discoveries in other areas of the fast-expanding nation.

Zinc ores, which had been found at deeper levels in the Galena region, did not become commercially valuable until the latter half of the 1800's. Zinc, which had earlier been tossed aside by the tons, grew in importance with the introduction of adequate smelters and for a brief period about the turn of the current century offset the decline of lead mining here.

Illinois Mining Today

From the 1910's through the 1930's, Illinois sagged as a lead and zinc producer. During the thirties, it was commonly believed that the ores of the Galena district

were nearly depleted. World War II reversed the situation, however. Shortages spurred the reopening of older mines, and prospecting for newer deposits proved successful. Moreover, the continued high demand for zinc and lead after the war, plus the sharp rise in the production of zinc and lead as by-products of flourspar mining in southern Illinois, has returned the State to a place among the top 10 producers. These are the only two metals of importance mined in the State today.

In 1961, Illinois ranked eighth in the production of both minerals. Although it has varied during the past two decades, mine output of lead and zinc in Illinois has climbed whereas the domestic total has fallen. From 1941 to 1961, zinc volume in the State rose 191 percent to 26,800 tons and lead production increased 44 percent to 3,340 tons. The State, however, was the fifth largest smelter of slab zinc, its volume being 78,800 short tons valued at about \$18 million.

Zinc and lead ores are found in numerous glacial deposits and pockets throughout the State. However, commercial quantities exist in only two areas. The largest of these is the Galena district in Jo Daviess County; the other is the neighboring counties of Hardin and Pope in southern Illinois.

The 20 active mines in Illinois were operated primarily by five major companies during 1961. The companies were Eagle-Picher and Tri-State in Jo Daviess County, and Aluminum Company of America, Minerva Oil, and Ozark-Mahoning in Hardin and Pope counties.

Lead and Zinc Consumption

Illinois, with its numerous heavy manufacturing industries, is a large user of both zinc and lead. The State was barely topped by Ohio in 1961 as the nation's top zinc consumer and was third among the states in the consumption of lead.

Zinc, because of its weather-resistant qualities, is extensively utilized as a protective coating. Nationally, about 40 percent of all zinc is channeled into diverse galvanizing purposes such as for gutters, pipes, fencing, and for hundreds of forms of steel. In Illinois, the largest share (about 40 percent) of the 135,000 short tons of slab zinc and pigments consumed in 1961 was used as base material or alloy for the casting. Other important uses of zinc in the State that year were for galvanizing (33 percent) and for the making of brass (14 percent). The remainder went into numerous products ranging from engravers' plates to paints and ink.

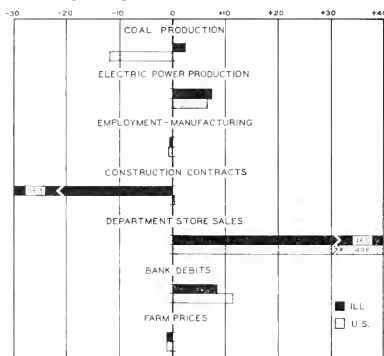
Similarly, lead finds divergent applications with its workability, low melting point, and relative chemical inertness. Like zinc, a high proportion of lead utilized annually is recovered from scrap. The battery industry is the heaviest user but other important end uses of lead include the manufacture of various metal products such as ammunition, solder, and cable coverings; chemicals, especially tetraethyl lead; and pigments such as white lead, used in paints.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS^a

Percentage changes, November, 1962, to December, 1962



^a Not seasonally adjusted.

ILLINOIS BUSINESS INDEXES

Item	Dec. 1962 (1947-49 =100)	Percentage change from Nov. 1962	Dec. 1961
Electric power ¹	272.9	+ 7.5	+ 1.2
Coal production ²	96.1	+ 2.4	+10.5
Employment—manufacturing ³	100.1	- 0.5	+ 0.9
Weekly earnings—manufacturing ⁴	187.5 ^a	+ 1.1	+ 2.8
Dept. store sales in Chicago ⁵	115.0 ^{b,c}	- 0.9	+ 8.5
Consumer prices in Chicago ⁶	104.7 ^c	- 0.3	+ 0.9
Construction contracts ⁷	196.5	-38.5	-25.0
Bank debits ⁸	286.2	+ 8.5	+12.0
Farm prices ⁹	98.0	- 1.0	+ 1.0
Life insurance sales (ordinary) ¹⁰	385.6	+ 7.0	+ 1.0
Petroleum production ¹¹	120.4	+ 2.1	+ 4.8

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agency Manag. Ass'n; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted. ^c 1957-59 = 100.

UNITED STATES MONTHLY INDEXES

Item	Dec. 1962	Percentage change from Nov. 1962	Dec. 1961
Annual rate in billion \$			
Personal income ¹	450.4 ^a	+ 0.5	+ 4.6
Manufacturing ²			
Sales.....	403.2 ^a	- 0.9	+ 3.7
Inventories.....	57.5 ^{a,b}	+ 0.5	+ 4.2
New construction activity ³			
Private residential.....	23.9	- 6.3	+ 5.0
Private nonresidential.....	18.4	- 6.6	+ 5.7
Total public.....	16.8	-11.1	+ 6.8
Foreign trade ⁴			
Merchandise exports.....	22.2 ^c	+14.7	+ 1.3
Merchandise imports.....	17.4 ^c	+ 0.9	+12.1
Excess of exports.....	4.8 ^c	+128.6	-24.9
Consumer credit outstanding ⁵			
Total credit.....	63.4 ^b	+ 3.2	+10.0
Instalment credit.....	48.2 ^b	+ 2.0	+10.8
Business loans ⁶	40.9 ^b	+ 3.6	+ 7.8
Cash farm income ⁷	50.6 ^c	-15.5	+26.0
Indexes (1947-49 =100)			
Industrial production ⁸			
Combined index.....	120 ^d	+ 0.1	+ 3.5
Durable manufactures.....	119 ^d	+ 0.3	+ 4.3
Non-durable manufactures.....	121 ^d	+ 0.2	+ 3.1
Minerals.....	102 ^d	- 2.8	- 2.3
Manufacturing employment ⁹			
Production workers.....	98 ^{a,e}	+ 0.1	+ 0.5
Factory worker earnings ¹⁰			
Average hours worked.....	102 ^a	+ 0.2	- 0.2
Average hourly earnings.....	182 ^a	+ 0.4	+ 1.7
Average weekly earnings.....	185 ^a	+ 0.7	+ 1.4
Construction contracts ¹¹	281	+ 0.3	+17.9
Department store sales ¹²	117 ^d	- 0.8	+ 3.5
Consumer price index ¹³	106 ^d	- 0.2	+ 1.2
Wholesale prices ¹⁴			
All commodities.....	100 ^d	- 0.3	0.0
Farm products.....	97 ^d	- 2.0	+ 1.5
Foods.....	101 ^d	- 0.4	- 0.1
Other.....	101 ^d	0.0	- 0.2
Farm prices ¹⁵			
Received by farmers.....	100 ^d	- 1.0	+ 1.0
Paid by farmers.....	105 ^d	0.0	+ 2.0
Parity ratio.....	79 ^d	- 1.2	0.0

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b End of month. ^c Data for November, 1962, compared with October, 1962, and November, 1961. ^d 1957-59 = 100. ^e Revised. ^f Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1963					1962
		Jan. 26	Jan. 19	Jan. 12	Jan. 5	Dec. 29	Jan. 27
Production:							
Bituminous coal (daily avg.)	thous. of short tons.....	1,228	1,418	1,434	1,420	1,238	1,371
Electric power by utilities	mil. of kw-hr.	18,321	18,110	17,467	16,874	16,435	16,686
Motor vehicles (Ward)	number in thous.	178	183	189	134	129	166
Petroleum (daily avg.)	thous. bbl.	7,245	7,299	7,289	7,280	7,362	7,420
Steel.....	1957-59 = 100.....	100.0	102.8	102.6	100.9	92.1	128.3
Freight carloadings	thous. of cars.....	462	502	522	422	357	533
Department store sales	1957-59 = 100.....	83	94	99	91	121	84
Commodity prices, wholesale:							
All commodities.....	1957-59 = 100.....	100.5	100.5	100.4	100.6	100.6	100.8 ^a
Other than farm products and foods	1957-59 = 100.....	100.6	100.7	100.7	100.7	100.7	101.0 ^a
22 commodities.....	1957-59 = 100.....	93.7	93.5	93.0	93.1	92.7	98.2
Finance:							
Business loans.....	mil. of dol.	34,291	34,612	34,937	35,351	35,166	31,981
Failures, industrial and commercial	number.....	321	286	315	241	143	389

Source: Survey of Current Business, Weekly Supplements.

^a Monthly index for January, 1962.

RECENT ECONOMIC CHANGES

Dividend Payments

Dividend payments of corporations issuing public reports during 1962 amounted to \$15.1 billion, a 6.3 percent increase over the previous year, according to the United States Department of Commerce. This advance occurred in both the manufacturing and nonmanufacturing areas with 10 of the 12 manufacturing groups reporting increases over 1961. The largest percentage gain in manufacturing was recorded by the automobile group with an 18 percent increase to \$1.1 billion in 1962; the only losses were recorded by the iron and steel and transportation equipment groups, with declines of a little over 3 percent from their 1961 totals to \$733 million and \$142 million last year. In the nonmanufacturing sector, the finance and communications groups were the pace-setters, with the former showing a 9 percent increase to a total of \$2.4 billion and the latter a 10 percent gain to \$1.4 billion last year. The only nonmanufacturing group to show a decline was the railroad industry, whose dividends dropped 7 percent from the 1961 total to \$353 million.

Labor Developments

During 1962 there was a continuing advance in employment, a small rise in the total labor force, and some reduction in unemployment compared with 1961. Altogether total employment in 1962 averaged 67.8 million, an increase of 1 million over 1961. In addition, the armed forces had their first large-scale expansion since the Korean War.

As indicated in the accompanying chart, the rise in nonagricultural employment from the previous cyclical high in the second quarter of 1960 to the third quarter of 1962 amounted to only 1 million persons, a gain of somewhat less than 2 percent. During this period the employment increase was centered in finance, services, and

government (mainly state and local). These groups showed a combined advance of over 1.2 million, or more than the rise in total nonagricultural employment. Except for the trade group, which registered a moderate increase, all other major groups, particularly the commodity-producing industries, registered some decline, even though output in these industries increased.

In addition to the higher level of employment, the rate of unemployment for the labor force was only 5.5 percent during 1962 as compared with 6.7 percent in 1961. This lower rate of unemployment last year was reflected in all of the principal groups of the population.

Gross National Product

The nation's output of goods and services rose to a seasonally adjusted annual rate of \$562 billion in the fourth quarter of 1962. The advance brought the total for the year to a record \$554 billion, 5.5 percent above the 1961 total. For the year as a whole a 10 percent increase in investment was recorded over 1961 but during the last half of the year investment decreased 3.2 percent from the first half.

During the year disposable income increased 5.0 percent over 1961, to \$383 billion, and personal consumption expenditures expanded about 5.5 percent. Contributing heavily to the 1962 advance was a \$4.0 billion increase in spending for durable goods, mainly autos, which had their best year since 1955. In addition, spending on nondurable goods rose \$6.5 billion and service expenditures continued their postwar expansion by rising \$8.0 billion over 1961. Personal saving held steady during the year at about \$26 billion or about 6.6 percent of disposable personal income.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(Billions of dollars)

	1962	1961	4th Qtr. 1962*
Gross national product	553.6	518.7	562.0
Personal consumption	356.7	338.1	363.5
Durable goods	47.6	43.7	50.7
Nondurable goods	162.0	155.2	162.8
Services	147.2	139.1	149.9
Domestic investment	76.2	69.3	75.0
New construction	41.3	41.6	44.9
Producers' durable equipment	28.8	25.5	29.6
Change in business inventories	3.1	2.1	.5
Net exports of goods and services	3.1	4.0	2.5
Government purchases	117.6	107.4	121.0

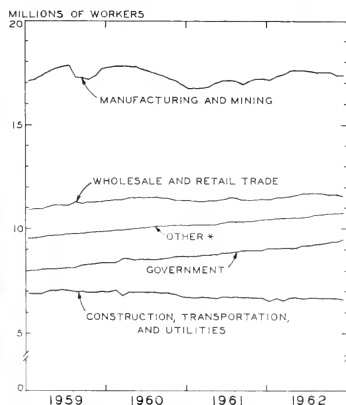
INCOME AND SAVINGS

National income	457.5	427.8	N. A.
Personal income	440.5	416.4	448.0
Disposable personal income	382.7	363.6	389.3
Personal saving	26.0	25.6	25.8

* Seasonally adjusted at annual rates.

Source: U.S. Department of Commerce.

NONAGRICULTURAL EMPLOYMENT



* Finance, insurance, real estate, service, miscellaneous.
Source: U.S. Department of Labor.

Food Fat Exports

The total supply of edible fats, oils, and oilseeds in the United States for the marketing year which began on October 1, 1962, is forecast at a record 16.5 billion pounds, 4 percent above the total in the 1961-62 marketing year. Domestic use of food fats is expected to continue at an annual rate of 46 pounds per person in 1962-63. This will mean that the quantities of edible vegetable oils, lard, butter, and soybeans available for export and carryover stocks in 1962-63 will probably reach 7.2 billion pounds, 6 percent more than in 1961-62.

BUDGET DEFICITS TO PROMOTE ECONOMIC GROWTH

JEROME J. HOLLENHORST, Lecturer, Southern Illinois University

By presenting a deliberately planned "deficit budget" for the fiscal year 1964, President Kennedy has dramatically announced an abandonment of his previous commitment to a cyclically balanced budget policy. Last year's budget proposal was designed to produce a tiny surplus; the deficit that actually developed was primarily the result of an overly optimistic estimate of income increases. By contrast, the current budget proposal not only deliberately anticipates a deficit for 1964, but also projects deficits for at least two additional fiscal years.

This departure from "orthodox" budget policy was motivated by sad experience: during the last few years the actual rate of growth has not coincided with the rate required to maintain full employment of the economy's resources. The effort to reduce the existing gap between the two growth rates underlies all the budget proposals.

Expenditures Rising to New Peak

Total expenditures for the fiscal year 1964 are estimated at \$98.8 billion, an increase of \$4.5 billion. The budget message stresses the point that the proposed increase is primarily attributable to the imperative need for greater spending for three functions—national defense, space exploration, and interest charges. The need for the increases in these items is asserted rather than justified. It is apparently felt that programs for gaining military supremacy will not be questioned.

The total of expenditures for the remaining functions has been held below the level of the current fiscal year. However, the restriction mainly took the form of minimizing increases, since the spending changes noted in Table 1 are somewhat deceptive. For example, gross outlays for postal services are expected to rise next year, but postal revenues are expected to rise still faster, reducing the postal deficit by \$250 million. Since only this decrease is carried in the commerce and transportation category of the President's budget, the increase in 1964 is correspondingly reduced. Another example is the predicted drop of \$1 billion in federal spending for the agricultural program, which is based largely on a hoped-for sell-off of cotton accumulated during this year's price support program.

If one considers the cash budget, on which President Kennedy lays some stress, the increase is even larger. The expenditures listed in Table 1 do not include trust fund expenditures, which are expected to rise from \$27.3

billion to 28.4 billion, mostly because of expanded operations of the highway and social security programs. The exclusion of these trust-fund expenditures and related receipts is the major difference between the administrative budget and the consolidated cash budget. Whichever statement one looks at, however, it is clear that expenditures will be rising to new record highs in fiscal 1964, exceeding even the wartime peak of 1945.

Taxes Cut, But Higher

Superficially, the advance of \$4.5 billion in expenditures represents the entire contribution of the budget to economic expansion, since tax receipts are also estimated to increase despite the proposed cuts in tax rates. In other words, the proposed deficit is primarily the result of total revenues rising less than expenditures, and the flow of "deficit dollars" is expected to increase by less than the increase in expenditures. To understand how this comes about, and why the superficial result does not tell the whole story, it is necessary to follow the entire chain of reasoning behind the Administration's budget strategy.

The President has proposed a mixed package of tax revision: reduced level of rates, changes in the rates of progression, and additional changes in the timing of corporate tax payments and in the deductions allowed in determining taxable income. Specifically, the corporate income tax rate is scheduled for a drop from the current 52 percent to 47 percent, beginning in calendar 1964. Individual income tax rates are to be cut in three annual stages from their present range of 20 to 91 percent to a range of 14 to 65 percent. If approved, this reduction would cut individual liabilities by \$6 billion in the first full year and by some \$8 billion per calendar year when the program is in full effect. The proposed program, when fully effective, would reduce tax liabilities by \$13.5 billion on the basis of calendar 1963 levels of income. But about \$3.5 billion is to be recouped by various loophole-closing proposals, including the formerly sacrosanct depletion allowance privileges now enjoyed by 114 industries ranging from oil to clay to clam shells.

In calculating actual tax receipts, however, one must take account not only of changes in rates but also of changes in the base against which the rates are applied. When the base is increasing, any decline in rates would be wholly or partially offset. The estimated results for 1964 give effect to a predicted gross national product of \$78 billion for calendar 1963—up \$24 billion from the calendar 1962 level. This substantial increase is based partly on the stimulus expected from recommended changes in tax structure.

The first year reductions in tax rates are concentrated on individual incomes, partly because last year's changes in depreciation guidelines and allowances have already reduced corporation taxes. The net effect of the proposed rate reduction and the predicted increase in individual incomes is a loss of tax revenues of only \$1.5 billion, as shown by Table 2. Since other tax receipts advanced by more than this amount, the total is expected to rise by \$1.4 billion.

When the cash budget is considered, the picture is not quite so rosy for the consumer. In January, social security tax rates went up by a full percent of payrolls, making for an increase in trust-fund receipts of close to

TABLE 1. ESTIMATED BUDGET EXPENDITURES
(Fiscal years; billions of dollars)

Function	1963	1964	Change
National defense.....	\$53.0	\$55.4	+2.4
Space research and technology.....	2.4	4.2	+1.8
Health, labor, welfare.....	4.9	5.6	+ .7
Interest.....	9.8	10.1	+ .3
General government.....	2.0	2.2	+ .2
Natural resources.....	2.4	2.5	+ .1
Education.....	1.4	1.5	+ .1
Commerce and transportation.....	3.3	3.4	+ .1
Veterans benefits, services.....	5.5	5.5	— 0
Housing, community development.....	5	3	- 2
International affairs.....	2.9	2.7	- .2
Agriculture.....	6.7	5.7	- 1.0

Source: *The Budget of the United States Government, Fiscal Year 1964.*

TABLE 2. ESTIMATED BUDGET RECEIPTS
(Fiscal years; billions of dollars)

	1963	1964	Change
Individual income taxes...	\$47.3	\$45.8	-1.5
Corporation income taxes...	21.2	23.8	+2.6
Excise taxes...	9.9	10.4	+ .5
Other...	7.1	6.9	- .2
Total...	85.5	86.9	+1.4

\$2 billion. This more than offsets the expected net decrease in individual income taxes. As can be seen from Table 3, the cash deficit is expected to rise less than \$2 billion next year.

Expansionary Effects of the Budget

The Administration's tax strategy derives from its recognition of inadequate growth and from its analysis of the effects of the tax system in restricting growth. It is estimated that the current relationship of the budget to economic activity would produce unemployment of 5 million if the budget were balanced, or, as an alternative way of looking at the problem, that the present tax system would produce a budget surplus of \$10 billion or more if the "full employment" level of 4 percent unemployment were reached. The objective is to promote full employment by eliminating this surplus.

Two kinds of economic effects are of special significance to the Administration's growth-stimulant strategy: the multiplier and the accelerator effects. When the government incurs a deficit, the total dollar amount is multiplied by stages in the private economy. The initial recipients of these "deficit dollars" will spend some portion of them on consumption goods and services; suppliers of these items will in turn spend some portion of their receipts on consumption items; and the process repeats itself over and over.

In his annual economic message to Congress, the President estimated that the proposed \$8 billion cut in income taxes would result in an immediate addition to consumer demand of "well over \$7 billion." Presumably this estimate is based on the fact that consumers spend on the average about 93 percent of their income. This average rate of spending implies that the middle and upper income groups do not spend as high a percentage of their income as those in lower groups, who spend practically all of their wages and pensions on goods and services. It follows that if the maximum multiplier effect is sought, the tax reduction should be concentrated in the lower brackets. Instead the Administration chose to propose reductions in all brackets, specifically tailored so as to reduce the progressiveness of the rate schedule. This "something-for-everybody" policy is presumably designed to improve the political acceptability of the proposal.

In addition, the increases in consumer sales associated with the deficit-caused multiplier effect may encourage or force some business firms to expand their facilities. The total of such induced increases in expenditures on new plant and equipment is called the accelerator effect. The combination of the rate reduction in the upper brackets and the cuts in corporate taxes is supposed to enhance the accelerator effect by making available more funds for business expansion and by increasing the profits obtainable from a boost in private investment spending.

Moreover, an accelerator effect is always interrelated with a multiplier effect because an expanding firm's new investment expenditures result in an initial increase of

income, thereby starting a chain of consumption spending and responding, as described earlier. This interrelationship between the multiplier-accelerator effects is now of more than academic interest because it is the basic economic rationale of the Administration's plan to employ budget deficits as a means of stimulating growth.

The Administration's proposed use of budget deficits differs significantly from the "pump-priming" advocated during the thirties. According to the older view, national income could be shifted upward from depression levels by means of substantial injections of government expenditures. As national income moved up, consumption and investment would advance and the injections of government expenditures could be discontinued because the higher levels of private expenditures would thereafter provide the necessary leverage. The President and his advisers have shown their disregard for pump-priming policy by arguing that increases in government spending programs should be justified in their own right and not solely as devices to stimulate the economy. They argue that the appropriate method of generating the desired multiplier-accelerator effects is by a permanent downward adjustment of the tax structure, especially income taxes, which will boost aggregate demand and thereby close the gap between actual and potential growth.

Problems and Prospects

The comprehensiveness of the Administration's proposal precludes easy generalizations about its probabilities of success, but some critics have already objected on the grounds that budgetary deficits create inflationary pressure. The crudest version of this proposition is that deficits invariably lead to an expansion of the money supply and thereby create irresistible pressures for price inflation. When put in such absolute terms, the proposition has the merit of empirical testability and can thereby be shown to be wrong for at least some periods of past experience. For example, the government incurred deficits during the recession period of July, 1953, to August, 1954, and the money supply increased by 1.7 percent but wholesale prices declined 0.3 percent. This does not refute the proposition; it merely points out that adjectives such as "irresistible" and "invariable" are seldom appropriate for describing the economy's behavior.

Another version of the inflation criticism recognizes that it is not money expansion per se which causes inflation but that budgetary deficits necessarily mean the government is adding more to total spending than it is withdrawing in the form of tax revenues. The resultant excess of aggregate demand over aggregate supply is said to cause an increase in the price level. This implicitly assumes full employment conditions which prevent increases in aggregate supply from offsetting tendencies toward price advances. The relevance of this version to fiscal 1964 is questionable in the light of present unused productive capacity and high unemployment. If there is any such threat, it is remote rather than imminent.

TABLE 3. BUDGET ESTIMATES, FISCAL YEARS 1963-64
(Billions of dollars)

	Administrative		Consolidated cash	
	1963	1964	1963	1964
Payments...	\$94.3	\$98.8	\$116.8	\$122.5
Receipts...	85.5	86.9	108.4	112.2
Deficit...	8.8	11.9	8.4	10.3

Other observers, both inside and out of the government, have suggested that the President's proposal asks for too little to lift the economy out of its sluggishness. This issue turns on whether the economy's underlying growth tendencies are sufficiently vigorous so that the stimulating effects of budgetary deficits will produce a large speed-up. Only if such tendencies exist can Kennedy's budget succeed in closing the gap between the actual and the full employment rates of growth.

On the other hand, there may be some possibility that the Administration's plan to stimulate growth will be thwarted by a recession. This seems to be a more imminent danger than inflation, and it is a danger for government finance as well as for the general economy. Indeed, despite the predicted increase in incomes, the Administration already anticipates a larger deficit than the one proposed if tax reduction is not put into effect during the coming year. In this event, it also foresees continuation of the "chronic" deficits accumulated during both Eisenhower and Kennedy years as a consequence of inadequate growth. Even the mildest of recessions would accentuate these difficulties.

But in the last analysis, those who fear recession are forced to "buy" this budget. They may decry elements of political expediency, which they can detect on both expenditure and revenue sides of the accounts, and they may doubt its efficacy, but if it is all that can be done, they have to give it a try. After all, it is definitely "designed to help speed the economy toward full employment and a higher rate of growth."

Problems of Development

(Continued from page 2)

cies may help by exerting some influence toward fair bargains. Yet there will be no way to avoid recognizing that questions of domestic economies, foreign trade and finance, and political relations are inseparable.

As the underdeveloped countries move into the secondary industries, they are likely to find similar problems occurring in even more acute form. Some industries they can readily build, such as cotton textiles, for which plants are being set up everywhere. These industries can use low-cost labor to compete with established producers, but some already have world-wide excess capacity and may even be rated declining industries. There are always pressures to protect industries of this kind, so entry into developed markets may be doubtful despite promises and good intentions. Tariffs are not necessarily too restrictive; but when protection takes the form of quotas, opportunities are drastically curtailed.

Establishing heavy industries is still more difficult. For these, foreign assistance is needed, and only a beginning has been made. In the industrial countries, the technology and the resources needed for the expansion of heavy industries were at hand, and giving them priority was responsible for the postwar "economic miracles" of Western Europe. The same kind of growth process is not available to everybody, and the newcomers have the additional problem of creating the infrastructure for a modern economy—that is, providing all the basic community facilities and services, including transport systems and power sources, needed for industrial operation. Progress may be speeded by borrowing technology that has been developed elsewhere, but it has often been found that industry does not develop automatically merely because such background needs have been supplied. The

quickest way to get the job done is to bring in foreign industry, and where this runs counter to the ruling political philosophy, progress is necessarily slower.

Foreign Aid Programs

Substantial assistance in the solution of development problems has been and will be available from the industrial countries. Our own aid program is most lavish and shows prospect of becoming permanent, though perhaps on a declining trend. It helped in the rebuilding of Europe, and the reorganization of OEEC (the Organization for European Economic Cooperation) into OECD (the Organization for Economic Cooperation and Development) reveals a willingness on the part of other industrial countries to undertake similar programs.

Under these programs, aid is provided in various forms. Some in the form of basic services may prove to be of most lasting benefit; these include technical assistance, education, and training in health and hygiene. Of clearly temporary import are such things as food and medical supplies to meet an immediate emergency. Both long- and short-term values are conferred by capital grants, low-cost development loans, and other credits. All these capital items, to be of greatest effectiveness, should be provided on a rising scale, in line with the needs of growing economies. However, the relative price trends of recent years have depressed export earnings and debt service has grown, so that continuing capital grants and loans make little if any net contribution.

The big trouble with our aid programs is that they are too much tainted with considerations of political advantage. For a few strategically located countries, ability to make effective use of the aid is given little consideration. Instead it is often used to bolster a tottering regime ruling over a caricature of an economy. Their shares are disproportionate, and making aid an instrument of the Cold War in this way has greatly reduced its contribution to world economic development.

Laying this stress on aid as a kind of political expenditure is not intended to deny the fact that it also affords economic advantages to the giver as well as to the recipient. The old fallacy that the more we give, the less we have is badly shopworn. In the last five years at least, any aid we have given has also sustained our own incomes and consumption. This gain, however, is no loss to anyone else. A program of mutual advantage need not be criticized because it serves both sides.

Even more, we have a right to insist that there are truly humanistic elements in our aid programs. Within the country, when some segment of the population is at a serious disadvantage and has no means of its own for obtaining relief, the community responds with public programs designed at least partially to meet the need. Now such a situation has developed on a world scale, and there are many who increasingly recognize a world community. In this wider community, it may be seen that the existence of underdeveloped countries puts a drag on the progress of the developed. If proposals for reducing this drag are received in a spirit of cynicism and allowed to die, there can be no progress. The underdeveloped countries, by viewing their position in this broader perspective, will be better able to focus their efforts, in part through the international organizations, toward retaining, redirecting, and possibly even enlarging the assistance that is so urgently needed in dealing with their own problems. Mutuality of interests is the basis on which to build international relations that will promote growth for all.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Census of Transportation Planned

The first Census of Transportation in the United States will be conducted this year. Authorized by Congress in 1948 to be a part of the economic censuses, this project has not previously been undertaken because funds have not been provided. However, as one of its final acts, the 87th Congress appropriated the necessary funds to launch the project. The census studies to be conducted during 1963 and 1964 will consist of four surveys: a national travel survey, a commodity transportation survey, a truck inventory survey, and a bus and truck carrier survey.

In the national travel survey, a sample of households will be interviewed about out-of-town trips made during the year as well as selected aspects of home-to-work transportation. The prime objective of the commodity transportation survey will be to measure "traffic flow," especially with respect to the relative volume of commodities shipped by each means of transport, length of haul, size of shipment, and origin and destination areas. The truck inventory survey, which will gather information by means of a mail questionnaire, will be used to develop data showing total number of trucks and trailers. In the bus and truck carrier survey, the main items of study will be the number of carriers by class of service, the number of vehicles, revenues, operating costs, and other important items.

Military Contracts for the Midwest

During the fiscal years of 1961 and 1962 military prime contracts distributed among the states for weapons and weapons systems totaled \$22 billion and \$25 billion

respectively, about half of the Defense Department's budget for each year. During the past decade emphasis in military purchases has shifted from tanks, trucks, personnel carriers, weapons, ammunition, and industrial machinery (which totaled 50 percent of all American military "hard goods" deliveries in 1953) to missile and electronic systems (which in fiscal 1961 accounted for 52 percent of military hard goods). This change in the nature of defense hard goods purchases has caused subsequent shifts in the geographical location of defense work. While that of the Midwest has declined, as indicated in the accompanying chart, the amount obtained by the Far West and New England areas has increased substantially.

In fiscal 1961, the Far Western states received 33 percent of all military contracts, compared with less than 14 percent during World War II and 19 percent during the Korean War. At the same time the share going to the five Midwestern states fell from 32 percent during World War II to 27 percent during the Korean conflict and 12 percent in fiscal 1961. However, in fiscal 1962 the proportion accounted for by these states rose to 13 percent, a reflection of the increase in conventional forces. In dollar terms the amount spent during fiscal 1962 in this area was under \$3.2 billion, compared with an annual average of \$8.7 billion during the Korean War. In addition to this reduction in defense contracts in the Midwest, about three-fourths of the amount spent on research, development, testing, and evaluation work on new weapons systems has been concentrated in California and the seven Eastern seaboard states. The five Midwestern states have received less than 7 percent.

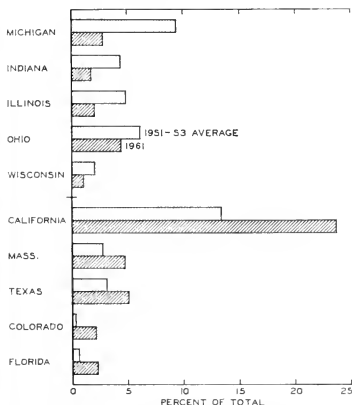
Educational TV Grows

From its small and tentative beginnings a decade ago when WQED in Pittsburgh went on the air, educational television has grown to a network of 70 stations with a potential audience of 50 million people. In addition to the stations already in operation, the Federal Communications Commission has authorized 205 more for future use out of the nation's potential 2,200 stations, according to the Department of Health, Education, and Welfare.

The biggest problem facing this infant industry is that of financing. The greatest part of the growth during the past 10 years has been financed by the Ford Foundation, but if that foundation holds true to its principle of funding experiments that it expects will eventually become self-sustaining, it will not be giving as much to ETV in the future. To replace this loss of funds ETV will have to rely more on backing from other foundations, government agencies, and large corporations. The organization responsible for the preparation and control of 10 hours a week of new shows, the National Education TV and Radio Center (NET) has the major job of finding the necessary funds.

Some of the corporations which have donated large sums of money for NET programming over the last three years, according to *Business Week*, have been Humble Oil and Refining Company; International Business Machines Corporation; American Petroleum Institute; and Merrill Lynch, Pierce, Fenner and Smith. The total amount that NET received from government agencies, foundations, and business increased almost 350 percent, from \$364,000 in 1960 to \$1,233,000 last year.

MAJOR SHIFTS IN DISTRIBUTION OF
MILITARY PRIME CONTRACTS



Source: Federal Reserve Bank of Chicago, *Business Conditions*, January, 1963, p. 12.

LOCAL ILLINOIS DEVELOPMENTS

Sales Tax Bills Sent to Governor

Among the first measures presented to the 73rd General Assembly when it convened in January was a series of bills to plug loopholes in the retailers' occupation tax. The first of these, passed and sent to the governor on February 6, was a bill requiring payments from small retailers on a quarterly or annual basis instead of monthly. It has been estimated that this will save the State \$1 million a year.

Another key proposal in the series—one requiring interest charges on all delinquent and deficient sales tax payments—also cleared the House with a minor amendment and was sent back to the Senate for concurrence.

Two other parts of the program coming up for House consideration immediately are (1) a measure requiring payment of the proper tax to the Department of Revenue before a certificate of title can be issued in the sales of automobiles and airplanes, and (2) one requiring vendors to post bond to prevent any escape of tax payment in the event a vendor goes out of business.

If all four bills are passed, it is estimated that the total return to the State during the 1963-65 fiscal period will be between \$50 million and \$70 million.

Report on Unemployment

The Governor's Committee on Unemployment has recently completed a report giving the results of its comprehensive study of unemployment in the State, including its survey of job seekers conducted in August of 1961. Part One of the report deals with the findings—on characteristics of the unemployed and utilization of manpower and natural resources—and Part Two offers the committee's solutions and recommendations.

In the effective use of natural resources the committee found that the State compares favorably with the nation; the Illinois economy remains one of the most productive

in the country, and from 1950 to 1961 its per capita personal income increased by a larger amount than the average for the country, although the rate of increase was slightly lower. In the utilization of manpower Illinois has also been more effective than the nation; in 1961, out of 40 states reporting to the United States Department of Labor, 24 had higher average rates of unemployment than Illinois. However, the committee concluded that there is considerable "preventable unemployment" in Illinois, particularly among the unskilled workers and those with obsolescent skills and among the uneducated, the young, and the nonwhite workers.

Recommendations for improvement in economic growth and development include coordination of state and local efforts; stimulation of scientific research and development activities; development of sites, resources, and services to encourage industry to locate and expand in the State; and increased attention to the problems of areas of declining economic activity. The report likewise includes recommendations for providing increased funds for education, using counseling more extensively, bringing workers and jobs together more efficiently, breaking down prejudicial barriers to employment, and establishing work programs for the long-term unemployed.

1963 Conservation Program

Illinois has received an allocation of \$8.6 million from the federal government for this year's Agricultural Conservation Practices (ACP) program. The state Agriculture Stabilization and Conservation Service Office has reported that this is about \$135,000 less than last year. Approximately 5 percent of this amount will go to the Soil Conservation Service and 5 percent to the State Division of Forestry for technical services; smaller amounts will be used in conducting the soil sampling program and other service activities. The largest portion will go to approximately 50,000 Illinois farmers who participate in the program each year.

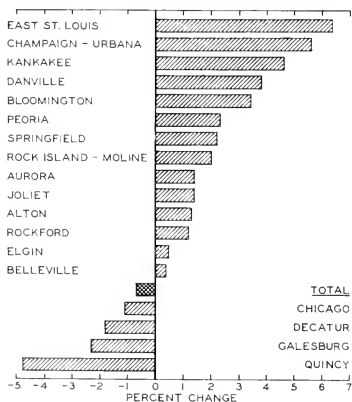
The federal government normally shares from 40 to 60 percent of the cost of carrying out soil and water conservation projects, with the farmer paying the remainder. A farmer must file a request for assistance prior to starting a conservation practice. These practices are chosen from a list provided by the federal government. They include sod waterways, cover for wildlife, contour strip cropping, tree planting, farm-pond construction, and pasture development. In most counties limestone and rock phosphate are offered in connection with grass and legume seedings, which can be used to good advantage by farmers cooperating in the feed-grain program.

Postal Receipts Decrease

Total postal receipts for 18 major trading centers in Illinois in 1962 amounted to \$224.8 million, having declined 0.7 percent from the 1961 total of nearly \$226.4 million. Although 14 of the cities showed increases ranging from 0.4 percent for Belleville to 6.4 percent for East St. Louis, the total was mainly affected by the decrease of more than \$2 million or 1.1 percent for Chicago. Other cities in which postal receipts declined were Quincy, Decatur, and Galesburg.

Gains for many of the Illinois cities were small; besides East St. Louis, the only other cities showing increases over 3 percent were Champaign-Urbana, 5.6 percent; Kankakee, 4.6 percent; Danville, 3.8 percent; and Bloomington, 3.4 percent (see chart).

CHANGES IN POSTAL RECEIPTS, 1961 TO 1962



Sources: Local post office reports.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1962

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
	Nov., 1962	\$23,726 ^a	1,432,364 ^a	\$662,954 ^a		\$25,016 ^a	\$20,369 ^a
Percentage change from	Dec., 1961	+8.1	+5.9	+1.8	+46	+8.5	+3.9
		-11.3	+5.4	+4.0	+8	+12.0	-1.2
NORTHERN ILLINOIS							
Chicago							
	Nov., 1962	\$16,457	1,038,883	\$473,213		\$23,304	\$17,037
Percentage change from	Dec., 1961	-3.7	+6.8	-1.9	+46	+9.3	+0.9
		-26.7	+4.6	+3.2	+8	+12.2	-2.7
Aurora							
	Nov., 1962	\$ 559	n.a.	\$11,077		\$ 90	\$ 208
Percentage change from	Dec., 1961	-21.0		-2.4	+42	-1.2	+23.2
		+242.9		+9.3	+1	+8.4	-2.4
Elgin							
	Nov., 1962	\$ 212	n.a.	\$ 8,591		\$ 57	\$ 161
Percentage change from	Dec., 1961	+40.5		+4.8	n.a.	+0.3	-7.2
		-30.5		+14.0		+7.1	+1.7
Joliet							
	Nov., 1962	\$ 237	n.a.	\$13,736		\$ 105	\$ 184
Percentage change from	Dec., 1961	-68.0		+1.1	+54	+2.9	+24.5
		+102.6		+10.1	-6	+9.3	+0.4
Kankakee							
	Nov., 1962	\$ 301	n.a.	\$ 6,506		n.a.	\$ 96
Percentage change from	Dec., 1961	+13.7		-0.2	n.a.		+28.3
		+616.7		+7.2			+1.7
Rock Island-Moline							
	Nov., 1962	\$ 1,380	32,694	\$13,865		\$ 143 ^b	\$ 249
Percentage change from	Dec., 1961	+14.0	+4.8	+3.4	n.a.	+1.0	+17.4
		+89.6	+4.7	+16.3		+12.9	-2.0
Rockford							
	Nov., 1962	\$ 894	62,751 ^c	\$23,892		\$ 228	\$ 396
Percentage change from	Dec., 1961	-13.6	+2.9	-3.2	+54 ^c	+4.9	+35.0
		+46.1	+10.1	+0.4	-4 ^c	+4.6	+6.6
CENTRAL ILLINOIS							
Bloomington							
	Nov., 1962	\$ 172	14,891	\$ 7,883		\$ 110	\$ 155
Percentage change from	Dec., 1961	-67.0	+5.5	+2.6	n.a.	+8.1	+19.4
		+112.3	+11.2	+12.0		+26.7	-2.0
Champaign-Urbana							
	Nov., 1962	\$ 360	19,417	\$11,400		\$ 100	\$ 192
Percentage change from	Dec., 1961	-22.6	+1.8	-8.8	n.a.	-3.1	+35.2
		+106.9	+11.3	+2.3		+11.0	+0.0
Danville							
	Nov., 1962	\$ 142	19,845	\$ 7,673		\$ 56	\$ 130
Percentage change from	Dec., 1961	-28.0	-2.6	-0.1	+55	-7.7	+50.2
		+75.3	+11.2	+5.2	+5	+6.6	+18.2
Decatur							
	Nov., 1962	\$ 207	40,204	\$13,567		\$ 128	\$ 178
Percentage change from	Dec., 1961	-17.0	-0.0	-4.3	+54 ^c	-15.4	+23.5
		+187.5	+8.3	+4.4	+2 ^c	+0.6	-2.8
Galesburg							
	Nov., 1962	\$ 226	11,813	\$ 5,364		n.a.	\$ 71
Percentage change from	Dec., 1961	-5.7	+7.6	-0.2	n.a.		+36.7
		+2,160.0	+16.3	+4.9			+4.4
Peoria							
	Nov., 1962	\$ 1,086	69,391 ^c	\$21,321		\$ 284	\$ 455
Percentage change from	Dec., 1961	+29.7	+6.3	+0.0	+53	+1.9	+10.3
		+85.0	+6.9	+6.6	+4	+7.6	-2.4
Quincy							
	Nov., 1962	\$ 233	15,340	\$ 6,733		\$ 60	\$ 123
Percentage change from	Dec., 1961	+167.8	+3.0	+1.9	n.a.	-5.4	+34.5
		+59.6	+9.4	+3.4		+1.5	+3.3
Springfield							
	Nov., 1962	\$ 968	49,671	\$16,906		\$ 156	\$ 430
Percentage change from	Dec., 1961	-16.5	+8.4	-4.5	+46 ^c	+0.9	+10.5
		+37.1	+2.2	+1.2	+5 ^c	+13.9	+8.1
SOUTHERN ILLINOIS							
East St. Louis							
	Nov., 1962	\$ 35	17,477	\$ 9,539		\$ 143	\$ 136
Percentage change from	Dec., 1961	-78.7	+2.9	-6.0	n.a.	-4.4	+58.3
		-77.1	+0.5	+5.4		+3.0	-10.2
Alton							
	Nov., 1962	\$ 51	25,693	\$ 5,774		\$ 53	\$ 69
Percentage change from	Dec., 1961	-91.6	+0.9	-0.7	n.a.	+3.9	+35.2
		-72.3	+8.6	+0.4		+17.4	6.4
Belleville							
	Nov., 1962	\$ 207	14,295	\$ 5,914		n.a.	\$ 99
Percentage change from	Dec., 1961	+66.2	+2.7	-1.0	n.a.		+31.5
		+73.9	+8.5	+7.7			+9.0

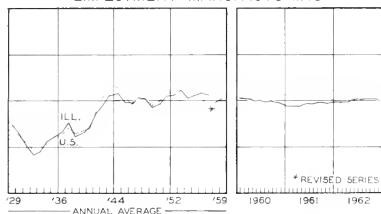
^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.

Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for November, 1962. Comparisons relate to October, 1962, and November, 1961. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending January 4, 1963, and January 5, 1962.

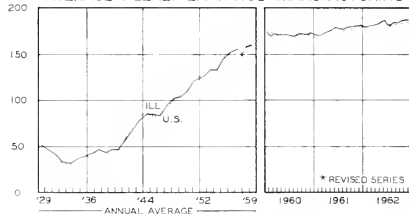
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

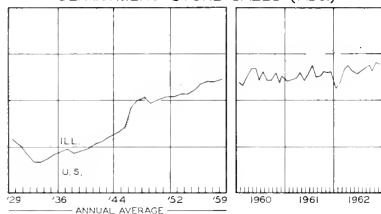
EMPLOYMENT-MANUFACTURING



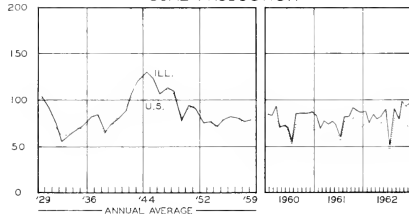
AVERAGE WEEKLY EARNINGS-MANUFACTURING



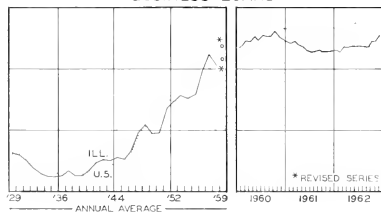
DEPARTMENT STORE SALES (ADJ.)



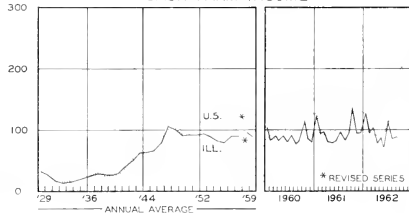
COAL PRODUCTION



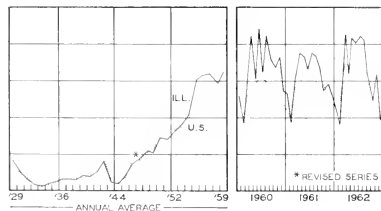
BUSINESS LOANS



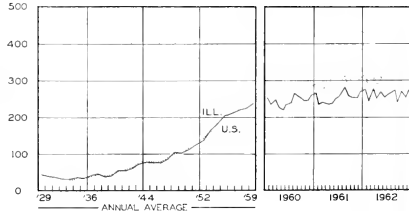
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

MAR 26 1963
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VOLUME 20

MARCH, 1963

NUMBER 3

HIGHLIGHTS OF BUSINESS IN FEBRUARY

The major indicators of business activity showed little change in February. Coal output, paperboard production, and freight carloadings were approximately the same as in January; electric power production and petroleum output were up slightly. Automobile output was over 600,000 units, down sharply from January, but still at a high level for the month. Steel production moved up slowly but steadily as steel users started modest buildups of inventories as a hedge against a possible strike later this year. The FRB's index of industrial production held at 119 (1957-59 = 100).

Preliminary estimates indicated that February retail sales rose fractionally above the January figure after seasonal adjustment to \$20.3 billion. Retail sales have been running ahead of those in 1962 for the past several weeks; for the month of February, the gain over a year ago was 7 percent. Sales of cars have been particularly strong; more than 525,000 new cars were sold in February, the largest number for the month since 1955. In contrast to the high level of retail sales as a whole, department store sales slipped 1 percentage point to 113 (1957-59 = 100), partly as a result of bad weather.

Construction Spending Off

Estimates for February put expenditures for new construction at \$4.0 billion, down a more-than-seasonal 8 percent from January. On the basis of a seasonally adjusted annual rate, February construction put in place was off 5 percent from the month before but 3 percent higher than in February, 1962.

Private construction dropped 7 percent to \$2.9 billion, chiefly because of a substantial decrease in nonfarm residential construction; the cuts from the January level were about twice as large as those normally expected. Public spending for new construction totaled \$1.1 billion, down 10 percent from January. In this case, the expected seasonal decline was 4 percent. The largest reduction in public construction occurred in the nonresidential building category.

Unemployment Rate Moves Higher

The seasonally adjusted rate of unemployment was up again in the February survey week to 6.1 percent, compared with 5.8 percent the month before and 5.5 percent in December. The February figure was the highest in 15 months. The number of workers without jobs, 4.9 million, was up 246,000 from the previous month and 375,000 from

February, 1962. Much of the increase in joblessness occurred in agriculture and construction, where severe weather may have been a factor; however, there was also a rise in unemployment in durable goods manufacturing. Of particular concern is the advance in the rate for adult men — from 4.3 in October to 5.1 in February.

Employment in February was nearly 66.4 million, up 423,000 from January to a new record for the month. The number of nonagricultural workers increased more than seasonally to 62.3 million, almost 600,000 above the previous month.

Capital Expenditures to New High

It is currently anticipated that outlays for new plant and equipment will reach a record \$39.1 billion in 1963. This figure represents a gain of 5 percent over actual expenditures of \$37.3 billion in 1962. The expansion is based on an expectation of record sales.

Manufacturers of durable goods plan to increase their capital outlays by 11 percent over 1962, with virtually all groups sharing in the advance. Only in machinery is a drop anticipated. Makers of nondurables indicate an over-all advance of 3 percent, with increases by textile, paper, and chemical producers partially offset by oil refiners' reductions.

Among the nonmanufacturing industries, public utilities expect to raise outlays 3 percent, railroads 13 percent, and commercial and communications companies 6 percent. Mining firms plan to cut outlays by 6 percent and transportation companies other than railroads are projecting declines of 11 percent.

Instalment Credit Still Strong

Consumers increased their outstanding instalment debt by a seasonally adjusted \$517 million in January. A rise of \$239 million in credit on automobiles and maintenance of a high level of credit sales of other durables were the most important elements in the January advance. The addition to auto debt was larger than that in December and was about equal to the average for the fourth quarter of 1962.

Noninstalment credit rose \$49 million in January despite a reduction of \$48 million in charge accounts. The over-all increase in consumer debt was \$566 million, equivalent to an annual rate of \$6.8 billion; total credit outstanding was \$62.7 billion.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Technology Transforms the World

The development of nuclear explosives and space transport on both sides of a world divided has resulted in a stalemate of military power described as "the balance of terror." It is widely assumed on either side that fear of destruction alone deters the other from adventuring toward world domination. Each takes pride in the scientific and technical developments that have given it strength to stand firm against this threat. The new technology, however, has broader implications for economic progress and these reflect back upon the power struggle itself.

To gain the enormous thrust of the new technology, it is necessary to incur enormous expense—not only in building large-scale, highly capitalized producing units but in developing and equipping correspondingly sophisticated programs of research and development. If expense were all, the users of these advanced techniques might well rest easy. Unfortunately, they are confronted with economic problems whose solution depends upon methods that are also experimental in nature and are not so well founded as those used in dealing with technical problems.

At the heart of the economic problems are the processes by which real capital is created, accumulated, and utilized. These may be represented in economic terms by stock-flow relationships that are basically cyclical in character. They involve instability as well as growth. Once progress through capital accumulation is begun, it cannot stop without adverse consequences. New investment outlays must expand continuously to maintain growth. They cannot be allowed even to stabilize over an extended period without inducing a downturn; and once a downturn begins, it gathers cumulative force because the existing rate of investment cannot be maintained. Hence, the only way to ensure constant progress is to gain control of these processes by understanding and adjusting to their dictates. It is not enough to have a planned economy in order for control in the relevant sense to be established; for these processes are not subservient to any particular system of economic ideology or political structure.

Different Stages of Prosperity

Khrushchev, in threatening to bury us, in effect adopted our standards. Before that, for a generation, the

Soviet Union had been building a capitalistic economy in the sense that it was accumulating the capital necessary for use of the most advanced techniques of production. In this it is still far behind us, despite the very considerable progress it has made in some lines. It must still limit some uses of capital and make allocations to other lines of industry, and the dominant allocations to military uses and heavy industries have restricted the growth of consumption. Nevertheless, a goodly measure of success has already been achieved, and that success looked all the more impressive because it encountered markets dammed up by widespread shortages.

Given peace and some relief from military necessities, future progress in meeting consumers' needs could be accelerated. Thus the direct interest of the people supplies a basis for advocating a policy of peaceful coexistence. There is no need to interpret Khrushchev's proclaimed faith in this policy as either a ruse or a sign of weakness in the armaments race.

On our side, where capacity is already adequate, there is no need for allocation or rationing. Every buyer, whether consumer or producer, is free to take all the products or resources he can pay for. Because we have such extraordinary ability to produce, our progress can be very fast when the need exists. But when market demands are satisfied, our production must be slowed. Thus, in our superiority lies our weakness. From our peaks, we have further to fall, and overhanging surpluses are likely to keep us down longer before recovery is achieved.

On both sides, there is a need for economic accomplishments that are not easy to achieve. Ours is to keep the economy moving up despite the occurrence of surpluses. Theirs has been a problem of expanding production fast enough to raise living standards despite the devouring requirements of military and investment programs. With the success they have already achieved, the problem is changing. They are now capable of producing surpluses in almost any specific line if not over-all, and some are bound to be produced unintentionally. But specific surpluses also involve a waste of resources and therefore some over-all loss of efficiency. As their economy moves across the threshold of high prosperity, the problem of maintaining balance in development will become more acute. Eventually, their economy will be much more like ours, and their control problems will take on more the character of ours. Only then will some of the popular comparisons and theories of economic progress become truly meaningful.

Accommodating to a Common World

There can be no guarantee of peaceful coexistence, of course, in the mere fact that two economies are becoming more alike. Basic differences in theories of economic control, as well as in political structure, persist. The Communist system seeks the maximum of public ownership and control; we seek to minimize public ownership and control. But the Communist countries are finding the maximum control desirable to be less than their extremists would like to insist upon; and the countries of the West have found the minimum desirable to be far above what "free enterprise" extremists advocate. Just where the lines will ultimately be drawn, no one can foretell.

Both sides are currently experimenting with methods to ensure steady and rapid economic growth. Soviet moves toward "revisionism" reflect the shift in the struggle for world supremacy from the military to the

(Continued on page 8)

HOG PRODUCTION AND MARKETING

That the hog is a highly valued meat animal is not surprising. No other farm animal needs less grain per pound nor yields a higher proportion of edible products per pound of its body (70 percent). Moreover, the hog's rapid multiplication, early maturity, and small capital investment make hog raising possible for nearly any size of farm.

Since the turn of the present century, production has concentrated primarily in the Midwest where the huge corn crops have been profitably utilized as hog feed. Today, more than half of the nation's hogs are found in four heavy corn-growing states — Iowa, Illinois, Indiana, and Missouri.

Economically, a close relationship exists between corn and hogs. Over 40 percent of the nation's annual corn crop moves to market in the form of hogs. The decision to convert corn into cash through the production of pork, however, is strongly dependent upon the current relative prices of the two commodities. As a rule, it is more profitable to produce pork than corn when 100 pounds of hog (live weight) at Chicago is worth more than 12 bushels of No. 2 corn at Chicago. This price relationship — known as the corn-hog ratio — significantly influences the amount of pork produced annually, especially since farmers tend to react collectively to changes in prices. For example, the Illinois corn-hog ratio for January dropped to 15.0 (bushels of corn equal in value to 100 pounds of hogs live weight) from 17.8 a year earlier. If the ratio continues to decline, there will probably be a contraction in spring pig production.

Illinois Ranks Second

Pork production is big business in Illinois. Sales of hogs brought Illinois farmers more than \$455 million in 1961, or more than one-fifth of the income for all agricultural commodities in the State. Only Iowa topped the 12.5 million baby pigs raised in 1961 and exceeded Illinois in the average number (7.7 million) and value (\$216 million) of hogs on farms last year.

Hog raising is fairly common throughout the State. However, the heaviest production is centered in the dense corn-producing region lying north and west of the Illinois River and eastward through DeKalb and LaSalle counties. This 26-county area accounts for more than half of the state's annual pig crop. Located in the area is Henry, the nation's most prolific hog-producing county, and Bureau, Lee, and Knox, all among the top 10 counties nationally.

A number of significant changes in hog farming have occurred in the State during the past 30 years, mostly as a consequence of improved practices, new equipment, and agricultural research. Among these have been advances in sanitation, nutrition, pig care, breeding, and farrowing. Probably the most notable occurrence has been the partial smoothing of the once sharp peaks in production. In the

1930's the overwhelming share of new pigs arrived in the spring, but with practical electrical equipment and careful attention, Illinois farmers have learned to produce more pigs in the winter and summer months, although spring and fall remain the principal farrowing seasons. Besides the increase in hybridization and crossbreeding in an attempt to develop more desirable qualities in hogs, another notable advance has been in the care of young pigs, which have such a high mortality toll during the first weeks after farrowing. In Illinois, the number of pigs saved per litter rose from 6.66 to 7.20 between 1948 and 1961.

Hog Marketing Trends

During the past three decades, and especially since World War II, hog marketing has changed markedly in the State. The dominant factor in this change has been the decentralization of the packing and meat-processing industries from the state's central markets, particularly Chicago and East St. Louis. As processors have spread out and shifted westward, they have contributed to a restructuring of hog movements within the State.

In the 1920's nearly all Illinois hogs were handled through the five terminal yards — Chicago, East St. Louis, Springfield, Peoria, and Bushnell. Less than half of total sales in the State are made at these outlets today. Instead, the terminals have taken a back seat to the swelling numbers of country markets dispersed throughout the State. Packers and other buyers, who once purchased almost exclusively from terminals, today buy directly from the Illinois farmer through some 180 buying stations.

Despite the fact that its number of hogs marketed in 1962 stood near a post-World War II high, Illinois has fallen sharply as a processor of pork. This is also a result of the packers' move to other states. In the twenties, hog slaughterings were half again as large as total production in Illinois; today, only about half of the hogs produced on Illinois farms are also butchered here. A heavy proportion of stock bought at direct buying stations is shipped to out-of-state processing houses.

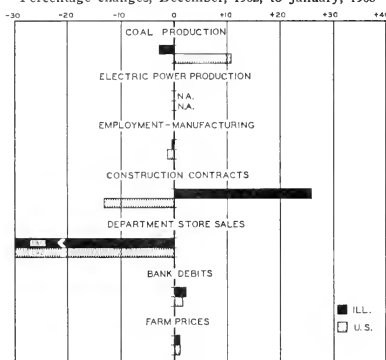
The structural change in the direct farm-to-packer movement of hogs has created some problems for the Illinois swine industry. The multimillion dollar terminal markets have had to reorient toward shipping to scattered, more distant processing plants. The proliferation of country assembly points, which operate on a relatively low volume but high cost per unit of side basis, has caused added costs in the marketing margin. The multitude of price reports of country sales of hogs leaves the producer confused on what the true value of his hogs should be. Finally, attempts to develop standards and grades to meet the changing tastes of diet-conscious Americans for leaner meats have been offset by lack of dealer cooperation and interest and by consequent lack of pressure upon producers to improve quality of hogs brought to market.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, December, 1962, to January, 1963



* Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Jan. 1963 (1957-59 = 100)	Percentage change from Dec. 1962	Jan. 1962
Electric power ¹	130.6	+ 7.7	+ 6.6
Coal production ²	118.3	- 2.8	+ 6.1
Employment—manufacturing ³	n.a.	- 0.5	+ 2.1
Weekly earnings—manufacturing ⁴	116.2 ^a	- 0.6	+ 4.3
Dept. store sales in Chicago ⁵	101.0 ^b	- 12.2	+ 6.3
Consumer prices in Chicago ⁶	104.7	0.0	+ 0.8
Construction contracts ⁷	78.8	+25.7	+12.8
Bank debits ⁸	153.8	+ 2.2	+10.3
Farm prices ⁹	99.0	+ 1.0	+ 2.1
Life insurance sales (ordinary) ¹⁰	104.3	-21.7	+ 0.7
Petroleum production ¹¹	100.4	- 0.3	+ 5.1

¹Fed. Power Comm.; ²Ill. Dept. of Mines; ³Ill. Dept. of Labor; ⁴Fed. Res. Bank, 7th Dist.; ⁵U.S. Bur. of Labor Statistics; ⁶F. W. Dodge Corp.; ⁷Fed. Res. Bd.; ⁸Ill. Crop Rpts.; ⁹Life Ins. Agcy. Manag. Assn.; ¹⁰Ill. Genl. Survey. ^aPreliminary. ^bSeasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	Jan. 1963	Percentage change from Dec. 1962	Jan. 1962
Personal income ¹	452.4 ^a	+ 0.4	+ 5.5
Manufacturing ¹	398.4 ^a	- 0.6	+ 2.5
Sales.....	57.4 ^{a, b}	0.0	+ 4.0
Inventories.....	22.3	- 7.8	+13.9
New construction activity ¹	16.8	- 8.9	+ 4.8
Private residential.....	13.1	-19.2	- 2.4
Private nonresidential.....	22.8 ^a	+ 2.7	+ 2.9
Total public.....	16.4 ^a	- 5.9	+ 5.6
Foreign trade ¹	6.4 ^a	+34.0	- 3.3
Merchandise exports.....	62.7 ^b	- 1.1	+10.6
Merchandise imports.....	48.1 ^b	- 0.2	+11.3
Excess of exports.....	39.5 ^b	- 3.4	+ 8.3
Consumer credit outstanding ²	38.6 ^a	-23.6	- 3.8
Total credit.....			
Installment credit.....			
Business loans ²			
Cash farm income ³			
Indexes (1957-59 = 100)			
Industrial production ²	119 ^a	- 0.2	+ 4.1
Combined index.....	119 ^a	- 0.3	+ 4.9
Durable manufactures.....	120 ^a	- 0.3	+ 3.7
Nondurable manufactures.....	103 ^a	- 0.1	- 1.4
Minerals.....			
Manufacturing employment ⁴	98 ^a	- 0.5	+ 0.6
Production workers.....			
Factory worker earnings ¹	101	- 1.0	+ 1.0
Average hours worked.....	114	0.0	+ 1.7
Average hourly earnings.....	114	- 1.0	+ 2.7
Average weekly earnings.....	97	-13.1	+ 4.6
Construction contracts ⁵	114 ^a	- 2.6	+ 3.6
Department store sales ⁶	106	+ 0.2	+ 1.4
Consumer price index ⁷			
Wholesale prices ⁸			
All commodities.....	101	+ 0.2	- 0.2
Farm products.....	98	+ 1.2	+ 0.6
Foods.....	101	0.0	- 1.1
Other.....	101	0.0	- 0.3
Farm prices ⁹			
Received by farmers.....	101	+ 1.0	+ 1.0
Paid by farmers.....	106	0.0	+ 1.9
Parity ratio.....	78 ^d	0.0	- 2.5

¹U.S. Dept. of Commerce; ²Federal Reserve Board; ³U.S. Dept. of Agriculture; ⁴U.S. Bureau of Labor Statistics; ⁵F. W. Dodge Corp.; ⁶Seasonally adjusted. ⁷End of month. ⁸Data for December, 1962, compared with November, 1962, and December, 1961. ⁹Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1963					1962
	Feb. 23	Feb. 16	Feb. 9	Feb. 2	Jan. 26	Feb. 24
Production:						
Bituminous coal (daily avg.).....	1,339	1,369	1,418	1,311	1,259	1,333
Electric power by utilities.....	17,489	17,672	17,532	18,188	18,321	16,110
Motor vehicles (Ward's).....	175	179	183	183	179	160
Petroleum (daily avg.).....	7,449	7,441	7,370	7,207	7,245	7,450
Steel.....	112 0	110.3	106.0	100.6	100.0	129.1
Freight carloadings.....	489	512	529	501	462	511
Department store sales.....	89	89	90	83	82	86
Commodity prices, wholesale:						
All commodities.....	100.2	100.1	100.4	100.4	100.5	100.7 ^a
Other than farm products and foods.....	100.6	100.6	100.6	100.6	100.6	100.8 ^a
22 commodities.....	93.0	93.3	93.6	93.8	93.7	96.1
Finance:						
Business loans.....	34,520	34,389	34,388	34,295	34,291	32,176
Failures, industrial and commercial.....	310	311	329	320	321	309

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for February, 1962.

RECENT ECONOMIC CHANGES

Time and Savings Deposits Up

At the end of 1962 time and savings deposits in Seventh District commercial banks totaled \$97 billion, almost 20 percent more than at the end of the previous year, according to the Federal Reserve Bank of Chicago. This increase was the greatest for any year in the postwar period and was sharpest at major banks in large cities. Among the various types of deposits, time certificates of deposits in denominations of \$100,000 or over expanded most rapidly. Over \$800 million of these certificates were outstanding in Seventh District banks at the end of 1962, almost twice the volume at the end of the preceding year. Most of these certificates of deposit were issued by banks in the major financial centers of this Federal Reserve District, with Chicago and Detroit accounting for almost 90 percent of the dollar volume.

Gold Situation

During 1962 gold output in the Free World reached the highest level ever recorded with about 37 million ounces produced, valued at \$1.3 billion. However, less of these enlarged supplies was added to official stocks than in any other year since World War II. During 1962, the United States gold stock, although still representing about 40 percent of the total world monetary gold outside Russia, declined to its lowest level since 1939.

In addition to the monetary uses, gold is held and traded privately in the rest of the world, and the amount being absorbed by the arts, industry, and private holders moved up more rapidly, as indicated in the chart. During 1962 about \$1.1 billion dollars worth of gold passed into private uses and holdings, a 33 percent increase over 1961 and the largest amount in any postwar year. Some entirely new industrial applications have been developed

in recent years (e.g., the gold and silver plated Mariner II recently used to study Venus), but these take relatively small amounts. There was a persistent demand for gold in Latin America and in the Far and Middle East, but the bulk of hoarding can be traced to buyers in Europe. This increased demand was due to declines in American and European stock markets, the wage-price spiral on the Continent, and the short-lived Cuban crisis last October.

Merchandise Exports

Merchandise exports account for about 60 percent of the total dollar value of United States receipts from goods and services. Unlike imports, which are closely related to domestic business activity, exports are dependent on international developments and are more volatile in nature. For example, in recent years they have moved from a high of \$19.5 billion in 1957 (excluding military aid goods) to a low of \$16.4 billion in 1958 and 1959 and back to \$21.7 billion (annual rate) in the middle of last year. In recent months another decline has set in.

The factors which most affect the total world demand for our goods are the level of business activity in the advanced industrialized countries and net capital flows from the United States.

Consumer Goods Output High

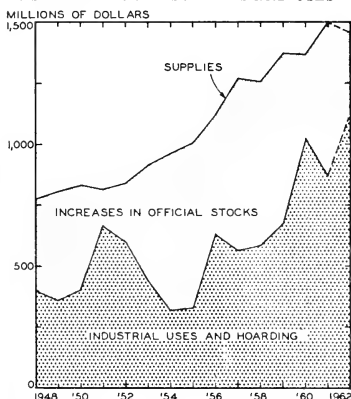
During 1962 about \$210 billion was spent on consumer durable and nondurable goods, for an increase of 5.5 percent over the previous year. Durable goods accounted for nearly 40 percent of the \$10.5 billion increase with the major gain being for automobiles. In the aggregate, consumers had the opportunity to buy more goods in 1962 than ever before. According to the Federal Reserve production index, the total output of all consumer goods averaged 120 percent of the 1957-59 base period, an increase of about 7 percent over 1961.

During the year all product groups registered output increases and at year-end most lines were at record rates of output. Durable goods such as autos and auto parts, household appliances, and furniture and rugs advanced steadily throughout the year and showed a gain of 9 percent or more over 1961. The only major hard goods group to show a significant output reduction from the highs reached earlier in 1962 was radio and television, which reduced output at midyear to 30 percent less than the early spring. In the soft goods lines the increases moved closely with the over-all pattern of total consumer goods production, with increases of 5 to 6 percent for all groups except the reading material and food groups, both of which increased but fell short of the 5 percent level.

Automobile Output

Automobile output continued to support the level of business by accounting for almost 25 percent of the overall rise in the gross national product during the final quarter of 1962. According to a newly released statistical series by the Office of Business Economics, the value of passenger car output was \$23.4 billion at a seasonally adjusted annual rate during the final quarter of 1962; this was \$1.8 billion higher than in the previous quarter and \$3 billion above the previous year. The current models set new records for the last quarter of the year with deliveries at an annual rate of over 7 million cars, and during the first two months of 1963, sales were maintained at approximately the same rate.

ESTIMATED GOLD SUPPLIES AND USES*



* Excluding Russian output but including reported Russian sales.

Source: First National City Bank, *Monthly Economic Letter*, January, 1963, p. 6.

RESIDENTIAL CONSTRUCTION IN 1963

ROBERT O. HARVEY, Professor of Finance*

The year 1963 is an interesting one in which to observe developments in residential construction. Since the end of World War II, housing has been relied upon as a sector which could be manipulated if the economy "needed" to be stimulated. Politicians, orators, and a variety of interest groups have found support for good housing or "home ownership for everyone" to be an attractive attitude with which to cloak a variety of proposals.

Now comes 1963 in which: (1) the prospects for aggregate residential construction are far from dismal but not ebullient; (2) there is little to be done which can stimulate private investment in housing; (3) there is widespread disenchantment with the results of public investment in housing; (4) defaults and foreclosures in distressing quantities are occurring on houses financed with loans made possible through the last major public attempt at stimulating construction; (5) there is an absolute shortage of mature families to sustain past rates of single-family dwelling unit acquisitions; (6) substantial vacancies exist in apartment buildings; and (7) a Presidential program to eliminate some of the possible advantages of home ownership and investment in rental properties disturbs the scene.

The prospects for 1963 are clouded by the impact of President Kennedy's Executive Order of November 20, 1962, on Equal Opportunity for Housing dealing with nondiscrimination in housing financed with FHA or VA loans (which account for 20 to 25 percent of housing starts). Regardless of the social justification of the order, there is no way of anticipating the way in which it will be administered, the degree to which discrimination will be charged and tested, or the way in which buyers, in general, may respond. Housing starts could be reduced depending upon the appraisals of tract developers concerning the social enlightenment of prospects in the housing market. Public statements issued by spokesmen in the home-building field imply greater caution is to be exercised in committing resources in advance of bona fide sales, if FHA or VA financing is involved, but such caution may be appropriate for reasons in addition to possible market problems resulting from integration.

Private nonfarm housing starts totaled 1,428,200 in 1962 with only 966,000 of these for single-family units. It is unlikely that housing starts in 1963 will exceed the 1962 totals. The range of probable production is estimated to be between 1,350,000 and 1,400,000 starts. For the

third year in a row, the single-family starts probably will number fewer than 1,000,000.

Factors other than the general economic scene will govern housing investment in 1963. The general economy can be expected to be adequate but insufficient to provide a special stimulus to housing production. Balances on mortgage contracts existing, terms available on new mortgages, potential housing expenses, consumer tastes and preferences with respect to shelter and competing products, and the age and family composition of the population are factors of greater immediate significance.

Mortgage Financing

The supply of funds available in the mortgage market should be adequate to support residential construction in 1963. The continuing accumulation of liquid savings, particularly in commercial banks and savings and loan associations, suggests that in the absence of either a huge surge in the quantity of mortgage money sought or a substantial diversion of funds ordinarily allocated for mortgages, loans should be readily available to finance construction at interest rates not greatly different from those in effect at the beginning of 1963.

In past years, the terms of mortgage loans have been adjusted to increase the number of families who could qualify for financing in order to stimulate construction and general business activity. Adjustments in terms to broaden the housing market cannot be effective in 1963.

The Housing Acts of 1950, 1954, 1956, 1957, 1958, 1959, and 1961 contained liberalizations and modifications of mortgage loan terms available under either FHA or VA loans which were designed to expand home ownership and to stimulate construction expenditures. For example, in 1950 the effective minimum down payment on a \$15,000 house financed by an FHA or a GI loan was 20 percent. By 1956, 100 percent loans were readily available with the VA guarantee. Minimum down payments on FHA loans were reduced from the 20 percent level of 1950 to 4 percent in 1960 and 3 percent in 1961. Typical down-payment requirements on conventional loans were 25 to 40 percent in 1950, but were steadily reduced to 25, 20, and even 10 percent. In 1963, relatively few seriously intentioned home owners are barred from home ownership by a high cash equity requirement, and very few unanticipated housing decisions could be produced by further adjustment in FHA and VA equity requirements.

Along with adjusting minimum equity requirements, the housing legislation extended the repayment terms for loans. A long-term mortgage loan in 1950 was 20 years; in 1963, terms of 30 and 35 years are readily available. During the 1950's the extension of the repayment period reduced sharply the payment required to service the loan on a monthly basis and greatly expanded the number of families who could qualify for given standards of housing.

Now that terms are commonly from 25 to 35 years, there is little opportunity to liberalize the repayment schedule. To illustrate: on a 5 1/4 percent FHA loan of \$10,000, exclusive of the FHA insurance premium, the monthly payments are as follows: 15 years, \$80.40; 20 years, \$67.40; 25 years, \$60.00; 30 years, \$55.30; 35 years, \$52.10; and 40 years, \$49.90. The importance of the monthly payment reduction is illustrated by the fact that an extension of the term from 25 to 30 years reduces

*Professor Harvey is also Director of the Executive Development Center. The 1963 Executive Development Program on the Urbana Campus will be held June 16 to July 13. This Seventh Session of the Illinois Program is for executives of a company's general management group; managers in functional areas such as engineering, sales, finance, manufacturing, personnel, or research; or managers of profit centers of decentralized units. The curriculum emphasizes Executive Behavior and Human Relations, The Environment of Business, and Business Policy and Administration. Enrollment is limited to 25 executives.

For a detailed statement of the Program, write or call: Robert O. Harvey, Director, Executive Development Center, 412 David Kinley Hall, University of Illinois, Urbana, Illinois. Phones, 333-2813 or 333-0459.

the required monthly payment by almost \$5, which means a drop of \$25 to \$40 in the typical net family income necessary to support the mortgage payments. In contrast, if the loan term is further extended from 35 to 40 years, the monthly payment is reduced by only \$2.20. The corresponding fall of \$11 to \$16 in family income required is inadequate to attract many marginal buyers.

Rising Foreclosures

Not only are there relatively few opportunities for further liberalization of mortgage terms, but also there are unfortunate aftereffects from past attempts to stimulate home construction with liberal financing. The Emergency Housing Act of 1958 passed by Congress April 1, 1958, to aid in the recovery from the 1957-58 recession made one billion dollars' worth of long-term, low or no down payment loans available to buyers of newly constructed houses. Easy terms and possible reduced FHA and VA standards attracted many marginal borrowers and did stimulate the production of housing, particularly in 1959 and 1960 when stimulation was not necessary.

Defaults and foreclosures, as shown in the accompanying chart, started rising sharply in 1960. Nearly all of the foreclosures since 1958 are on properties built and financed subsequent to the Housing Act of 1958. The implication is that the last massive attempt to stimulate housing by extreme liberalization of mortgage terms attracted buyers who have been able to prove quickly and convincingly that they entered the housing market prematurely and ill-advisedly.

The liberal financing terms with which many present home owners bought in the first instance now trap some would-be second-time buyers into their earlier housing decisions. A home owner wishing to acquire a new or different house usually must recapture his equity in his old one in order to effect a new transaction. Since the middle 1950's, house prices have not advanced to assure home owners protected equities. Many would-be house traders

have discovered that the repayments after four or five years on their 30 and 35 year mortgage loans have amounted to less than the decline in the market value of their property.

Housing Legislation

There is nothing in the legislative picture for 1963 which is particularly stimulating to home ownership. The most controversial measure is President Kennedy's tax reform proposal, which would eliminate tax law features which have made home ownership economically attractive. A home owner may now deduct from taxable income, payments for mortgage interest and real property taxes. In Mr. Kennedy's proposal, these would be lumped into a group of deductions on which a restriction of 5 percent of gross income would apply. The prospect of the loss of these deductions should add to the restraints against new home construction.

Also in the tax reform measure are plans for reducing tax-saving opportunities through investment in rental real estate. Investment in units for three or more families increased sharply beginning in 1959 in response to recognition of the weaknesses in the single-family housing market, the growth of the potential rental market from young people wishing to establish independent households, and the opportunities for recapturing investment quickly through depreciation allowances made possible in the Revenue Act of 1954. An investor in a successful project could, through depreciation allowances, recover quickly his investment in the non-land component of real estate, and then sell the property subject to a capital gain tax on the difference between the sale price and the unrecaptured portion of his original investment.

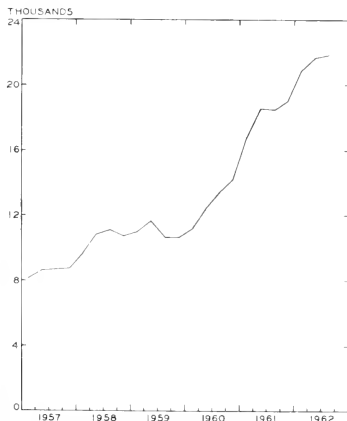
The capital gain opportunity attracted many to invest in apartment construction. The President now proposes to allow capital gain tax treatment only on the portion of a sale price in excess of the original investment. Any portion of original investment recovered through depreciation would be taxed upon sale at ordinary income tax rates. The accelerated depreciation plans and the capital gains provisions were included in the tax laws as a way of stimulating capital formation. Removal of these advantages would adversely affect builders' plans and reduce the number of multifamily units produced.

Demographic Factors

The fundamental question on new housing construction for 1963 is that of population influences on the magnitude of urban household formation. The demand for housing is ultimately the result of the formation of independent households and households are primarily the product of family formation. A growing population does not necessarily mean a high rate of family formation and even a high rate of family formation does not necessarily mean the establishment of independent households. However, if economic prospects are adequate, if the terms of mortgage financing are satisfactory, and if housing opportunities are attractive enough to compete against goods and services in general for consumer desires, then household formation may be expected as a result of the population's growing and maturing.

For several years after World War II household formation was partly a product of families without their own households shifting into independent dwelling units. In 1948, 8.7 percent of the nation's married couples were without their own household. By April, 1962, the group had been reduced to 2.1 percent of the married couples.

FORECLOSURES ON NONFARM MORTGAGES



Source: Federal Home Loan Bank Board

Housing demand is also affected by the shift of households from farm to nonfarm areas. In 8 of the 11 years from 1950 to 1961, nonfarm household growth exceeded the aggregate increase in household formation. In 1961, for example, aggregate household formation was only 681,000 but the growth of nonfarm households totaled 1,020,000. Part of the housing demands in the postwar years have clearly stemmed from relocation of households.

The total number of households in the United States in March, 1962, was 54,652,000. The highest Bureau of the Census projection indicates that households will number about 57,500,000 by March, 1965, which would imply a net gain of about 1,000,000 a year. The population in 1965, however, will contain no more persons in the 25-44 age bracket than in 1962. Decisions to invest in home ownership are most often made by families headed by individuals in the 25-44 age group.

The recent increase in the number of young householders has been reflected in the relative rise of multiple-unit starts. In the mid-1950's, it was not unusual for 90 percent or more of the private starts to be in the form of single-family detached units. In 1962, only 68 percent of the starts were single units. The Bureau of the Census projections place total household increases between 1958 and 1965 at 7,115,000 units. Of these, 1,593,000 will be headed by persons under 25 years of age and 3,385,000 will be headed by persons over 55 years of age. This puts 70 percent of the increase in categories in which householders historically either have been interested in renting or have already become home owners. It would not be surprising to find single-family starts accounting for less than 70 percent of the total starts during the next two or three years.

Supply Factors

Existing vacancies, consumer tastes and preferences regarding the type of dwellings acceptable, and modifications in the housing stock affect the number of new units needed annually. There were about 1.5 million vacancies in the rental stock amounting to 7.3 percent of the total at the end of the third quarter of 1962. Units vacant for sale numbered only about 450,000, or 1.3 percent of the total number. The rental vacancies fall into categories ranging from "new" to "dilapidated, substandard," yet they are all available to supply housing services. Some of the least competitive units will disappear through destruction or combination; some will stay vacant, but others will be returned to active use through physical modifications and rent adjustments.

In the years 1950-56, 708,000 dwelling units were supplied through conversion and subdivision of existing units and 3,216,000 units were lost from demolition, mergers, and conversion to nonresidential uses. From 1956 through 1960 the total stock of houses actually increased by 200,000 less per year than the number of new units built.

The mobile home has also become an important substitute for the house or the apartment. The number of mobile homes shipped in the years 1959 through 1962 averaged more than 100,000 units a year with shipments ranging between 10 and 15 percent of the number of private housing starts.

Finally, many home owners are solving their space problems through building modification as opposed to relocation. The emotional and institutional attachments to certain locations are supporting rising expenditures for alteration, remodeling, and expansion as opposed to investment in new units.

Summary

The basic demand factors for housing in 1963 indicate that construction will continue strong. However, the demand structure is such that it cannot be manipulated or expanded by techniques employed in past years. Moreover, the weaknesses in housing, such as they are, are in part the result of unwarranted and ill-advised previous manipulations of housing demand. The age distribution of the population and the terms on which mortgages are available are fixed for the present. Tax reform plans offered by the President would take away incentives for home ownership and investment in rental properties.

With all this, housing can do well but not better than in 1962. Housing starts could equal those in 1962 but probably will be from 3 to 5 percent less. There is little danger of a decline of more than 7 percent.

Technology Transforms the World

(Continued from page 2)

economic front. They bespeak a striving for efficiency in over-all production instead of for peak military power. To this end, their planners have made various efforts in recent years to harness individual initiative without giving free rein to private enterprise. Thus, new incentives were provided to farmers last year to spur lagging agricultural production. Private building and state subsidies have also been used in attempting to make up the lag in housing. In areas of unsatisfactory progress, new programs are continually being tried in an effort to determine the best means of stepping up production.

In the West, there is a definite trend toward economic planning, though not of the dictatorial type. It consists, rather, of efforts to use the strongest measures of monetary and fiscal policy, supplemented by incentives to private enterprise, to maintain the pace of economic growth. Even the United States is making its first deliberate step in this direction, in the Kennedy tax proposals for fiscal 1964.

Planning in the West and revisionism in the East are both aspects of an attempt to apply intelligence to the solution of emerging problems. To do this effectively, it is necessary to cast out dogma and eliminate other obstacles to the extent that circumstances permit. Even though these healthy attitudes continue to prevail on both sides, they could hardly be expected to change the relationships between the world's two great military powers in any short period of time. They do, however, afford hope of an eventual accommodation that could rule out Armageddon.

For the time being, the world's hope lies in the unwillingness of either side to risk destruction of all it has been able to create. Each now seeks to win the minds of men by offering them superior gains, and the technology that is transforming the world exacts conformity from all who participate in the race. Each, seeking to make the new technology his slave, makes it also his master, and each is thus forced closer to the standards and the methods used by the other. Time is all-important if potential gains are to be realized, and the Cuban crisis has shown how time may be gained, how informal negotiation can be used to avert a real blow-up. It highlights the possibility that a series of uneasy truces might carry us through the years needed for working out a way of living peacefully together in the world we are competitively building.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Employment Growth Since 1947

From 1947 through 1962 the number of nonfarm workers in the United States increased by more than 25 percent, the gross national product expanded by 66 percent, and average weekly earnings of factory workers rose by 45 percent. These advances, however, were mainly concentrated in the first decade of this 15-year period.

During the past five years, three trends have been noticeable. First, the rate of job growth has slowed appreciably in the private sector of the economy. According to the Department of Labor, the rate of growth in the nonfarm sector has been producing only 464,000 new jobs a year since 1957, a 0.9 percent increase as compared with a yearly average of 902,000 new jobs or 1.9 percent during the previous 10 years.

The second trend in employment growth has been the long-term shift away from the output of goods and toward services. The proportion of workers in the goods-producing industries, such as agriculture, manufacturing, construction, and mining has fallen from 51.3 percent of total workers in 1947 to only 41.8 percent in 1962. However, the goods-producing industries continue to account for the largest total number of persons employed. Rapid job growth in the other broad categories—government and service industries—has helped cushion the decline in the goods-producing industries (see chart).

The third trend has been the over-all decline of economic growth as measured by the gross national product. For the period 1947 to 1957, GNP rose in constant dollars at an annual rate of 3.75 percent, but since 1957 this rate has been only 2.9 percent. A partial explanation for this decline in growth and shift in the employment pattern is

the lingering effect of recent recessions. Each recession affected mainly the goods-producing industries by causing large numbers of production workers to be laid off, and employment levels were never fully restored during the recovery periods because of rapid technological change and lack of gains in product demand.

Balance of Payments Report Issued

A fact book tracing the evolution of the United States balance of payments for the last 40 years by major types of transactions has been released by the United States Department of Commerce. This report, entitled *Balance of Payments Statistical Supplement*, is a 272-page volume containing 87 statistical tables. Some of the subjects dealt with are merchandise trade by economic end-use categories, United States government transactions (military and nonmilitary), international travel expenditures and receipts, the international investment position of the United States, and area breakdowns of the balance-of-payments accounts between the United States and other countries. Copies of the book may be obtained from the U.S. Government Printing Office, Washington, D.C., for \$1.25.

Commuting to Jobs

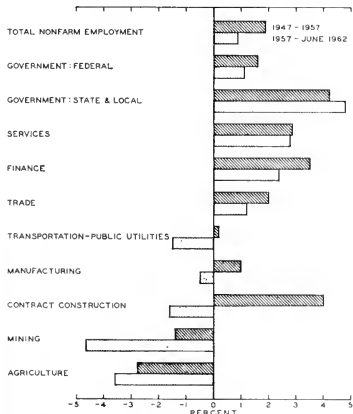
Of the 19.6 million workers living in the suburbs of the 190 standard metropolitan statistical areas in 1960, about 58 percent worked in the suburban ring, 33 percent commuted to the central city, 5 percent went to jobs outside the SMSA, and 4 percent failed to report their place of work. Of the 22.1 million workers living in the central cities, about 83 percent worked in the central city, 9 percent went to jobs in the suburban ring, 2 percent commuted to jobs outside the SMSA, and 6 percent failed to report their place of work.

Of the 6.5 million suburban workers who commuted to the city, 80 percent went to their job by private car or carpool; 85 percent of the 2 million workers who traveled from the city to jobs in the suburbs used automobiles. The only SMSA in which more than half of the people used public transportation to get to work was the New York area, where 55 percent did so. As a whole only 44.7 percent of the 41.7 million workers living in SMSA's used public transportation to get to work.

Educational Level Rising

The average adult American during 1962 had over a year more of schooling than his counterpart of a decade ago, according to the Bureau of the Census. As of 1962 the average number of school years completed for a person 25 years old and over was 11.4, compared with 10.1 in 1952. This rising level of completed schooling is best illustrated by comparing the 25 to 29 age group, which had an average of 12.4 years of schooling, with the 55 to 64 age group, which recorded only 8.9 years of education. There has also been a narrowing of the differences in the average educational attainment between whites and non-whites, with the difference between the two groups having decreased from 2.5 years for those 55 to 64 years of age to only 1.3 years for the 25 to 29 age group. The average number of completed school years for women 25 years old and over was 11.6 during 1962, about one-half year greater than the average for men.

ANNUAL RATES OF EMPLOYMENT GROWTH



Source: U.S. Department of Labor, *Manpower Report*, January 30, 1963.

LOCAL ILLINOIS DEVELOPMENTS

More Defense Work in Illinois

On February 18 Governor Kerner announced that Illinois universities and nonprofit institutions had increased their share of prime defense contracts for experimental, developmental, test, and research work from \$25,576,000 in fiscal 1961 to \$29,922,000 in fiscal 1962, an increase of 17 percent. Compared with the 1960 total of \$29,603,000, the 1962 figure indicates an increase of 41 percent during the last two years.

According to a recent report issued by the United States Department of Defense, research and development contracts were awarded to the following institutions: Armour Research Foundation, \$10,763,000; University of Illinois, \$9,764,000; University of Chicago, \$4,838,000; Northwestern University, \$2,892,000; and Illinois Institute of Technology, \$1,665,000.

An earlier Defense Department report showed that total military prime contracts awarded to Illinois manufacturers by the Army, Navy, and Defense Supply Agency were higher during the second quarter of 1962 than at any time since 1958, indicating that the downward trend in defense spending in Illinois has been reversed.

1963 Feed Grain Program

Advance payments to Illinois farmers participating in the 1963 feed grain program totaled \$11,480,108 on February 28. The State-Federal Crop Reporting Service has reported that 24,680 Illinois farmers are registered for the program so far this year. Farmers have until March 22 to sign up.

Under the program, introduced by the Kennedy Administration in an effort to cut the mounting feed grain surpluses, the farmers receive payments for the acreage

that is placed in the program and become eligible for price supports for their crops. The price support for corn is \$1.25 a bushel; grain sorghum, \$2 a bushel; and barley, 96 cents a bushel.

When a farmer signs to participate in the program he agrees to cut his acreage by 20 percent; he may also choose to cut the acreage by an additional 20 percent. Each farmer receives a partial payment when he registers for the program. Rates vary from county to county.

First on the list of counties is Champaign with advance payments of \$484,504. Vermilion County is second with \$395,002, Macon County third with \$353,069, Shelby County fourth with \$256,646, and Piatt County fifth with \$255,714.

Business Indexes Revised

In this issue of the *Illinois Business Review* revised indexes of business activity appear on pages 4 and 12. A new base (1957-59 = 100) has been used to bring the charts up to date. The only material not available is the series on manufacturing employment for Illinois. Non-agricultural employment figures for 1961 and 1962 have recently been revised to a March, 1962, benchmark by the Research and Statistics Section of the Illinois State Employment Service and Division of Unemployment Compensation. Employment in manufacturing is higher in the new series because dairies and ready-mix concrete firms have been taken from trade and added to manufacturing. The Research and Statistics Section is currently preparing a replacement series, which will be available soon, to bridge the gap between the new and the earlier series.

Mineral Output Remains High

The value of mineral production in Illinois in 1962 has been estimated at an all-time peak of \$617.5 million, \$13.5 million greater than the final production figure of \$604 million for 1961 and topping the previous high of \$615.8 million established in 1960 (see chart).

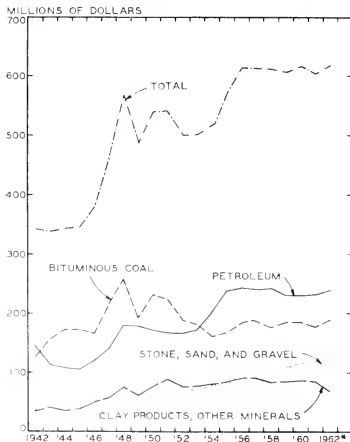
The major mineral fuels—crude oil and coal—showed marked increases in 1962 and amounted to 69.2 percent of the total. Oil was the leader with the production of 79.5 million barrels valued at \$239 million, an increase of \$6.6 million over 1961.

Approximately 48 million tons of coal, valued at \$188 million, were produced in 1962. Illinois—exceeded only by West Virginia, Kentucky, and Pennsylvania—annually produces 10 to 12 percent of the nation's bituminous coal output. Leading coal production counties in 1962 were Williamson, Fulton, Christian, St. Clair, Franklin, Saline, Jefferson, Perry, Knox, and Montgomery.

The value of stone products and sand and gravel was estimated at \$143 million, 19.9 percent of the 1962 total. Illinois leads the nation in both production and use of agricultural limestone. Cement manufacture—fifth largest mineral industry in product value in the State—has been concentrated in LaSalle and Lee counties; a new cement plant is now being built in southern Illinois near Joppa. Estimated production of sand and gravel totaling \$35.8 million topped the record set in 1961.

Clay products and fluorspar and other metals were valued at \$67.5 million, 10.9 percent of the estimated total. Illinois clay products include face and common brick; structural, drain, and sewer tile; refractories; pottery; and whiteware. More than 50 percent of the nation's fluorspar is produced each year in Illinois.

MINERAL PRODUCTION IN ILLINOIS



* Estimated

Source: Illinois State Geological Survey.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1963

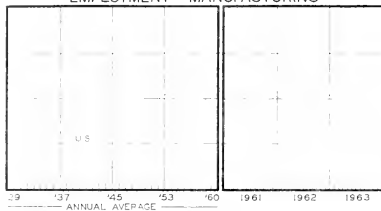
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$26,827 ^a	1,499,699 ^a	\$766,189 ^a		\$25,578 ^a	\$19,596 ^a
Percentage change from	Dec., 1962	+13 1	+4 7	+15 6	-58	+2 2	-3 8
	Jan., 1962	+45 3	+4 1	+5 5	+8	+10 3	+17 6
NORTHERN ILLINOIS							
Chicago		\$16,683	1,081,919	\$533,355		\$23,826	\$16,476
Percentage change from	Dec., 1962	+1 4	+4 1	+12 7	-58	+2 2	-3 3
	Jan., 1962	+22 5	+3 3	+3 7	+7	+10 5	+16 1
Aurora		\$ 628	n.a.	\$13,045		\$ 91	\$ 218
Percentage change from	Dec., 1962	+12 3		+17 8	n.a.	+0 6	+5 1
	Jan., 1962	+110 1		+0 2		+9 1	+22 1
Elgin		\$ 99	n.a.	\$ 9,714		\$ 64	\$ 190
Percentage change from	Dec., 1962	-53 2		+13 1	n.a.	+12 3	+17 9
	Jan., 1962	-19 5		+12 1		+17 8	+19 5
Joliet		\$ 5,252	n.a.	\$16,841		\$ 102	\$ 157
Percentage change from	Dec., 1962	+2,119 6		+22 6	-62	-2 1	-14 9
	Jan., 1962	+5,317 4		+10 5	-9	-0 8	+35 4
Kankakee		\$ 36	n.a.	\$ 8,481		n.a.	\$ 86
Percentage change from	Dec., 1962	-88 1		+30 5	n.a.		-10 3
	Jan., 1962	-96 0		+10 8			+10 7
Rock Island-Moline		\$ 274	35,579	\$17,224		\$ 136 ^b	\$ 225
Percentage change from	Dec., 1962	-80 2	+8 8	+24 2	n.a.	-4 6	-9 7
	Jan., 1962	-58 4	+5 7	+13 1		+10 3	+23 9
Rockford		\$ 1,200	68,629 ^c	\$28,770		\$ 220	\$ 322
Percentage change from	Dec., 1962	+34 2	+0 4	+20 5	-64 ^c	-3 2	-18 8
	Jan., 1962	+1 1	+6 5	+7 7	-2 ^c	+2 6	+16 0
CENTRAL ILLINOIS							
Bloomington		\$ 68	15,935	\$ 9,356		\$ 110	\$ 159
Percentage change from	Dec., 1962	-60 5	+7 0	+18 7	n.a.	+0 8	+2 8
	Jan., 1962	-89 5	+22 2	+11 9		+11 1	+32 7
Champaign-Urbana		\$ 32	20,553	\$13,708		\$ 110	\$ 182
Percentage change from	Dec., 1962	-91 0	+5 9	+20 2	n.a.	+10 1	-5 3
	Jan., 1962	-82 7	+7 6	+7 6		+19 6	+30 7
Danville		\$ 75	21,871	\$ 9,659		\$ 61	\$ 111
Percentage change from	Dec., 1962	-47 2	+10 2	+25 9	-63	+8 4	-14 9
	Jan., 1962	-48 3	+10 0	+10 0	+7	+15 7	+42 0
Decatur		\$ 203	42,585	\$16,750		\$ 144	\$ 178
Percentage change from	Dec., 1962	-1 6	+5 9	+23 3	-64 ^c	+12 3	+0 1
	Jan., 1962	+151 3	+8 7	+10 4	-3 ^c	+14 7	+32 5
Galesburg		\$ 13	11,647	\$ 7,051		n.a.	\$ 68
Percentage change from	Dec., 1962	-64 2	-1 4	+31 4	n.a.		-4 1
	Jan., 1962	n.a.	+8 0	+12 7			+67 8
Peoria		\$ 1,148	70,858 ^c	\$26,532		\$ 284	\$ 362
Percentage change from	Dec., 1962	+5 7	+2 1	+24 4	-62	-0 1	-20 5
	Jan., 1962	n.a.	+4 4	+13 0	+4	+6 1	+11 9
Quincy		\$ 47	16,766	\$ 8,563		\$ 65	\$ 110
Percentage change from	Dec., 1962	-79 8	+9 3	+27 2	n.a.	+7 9	-10 8
	Jan., 1962	-4 1	+2 4	+12 1		+10 0	+34 7
Springfield		\$ 770	52,005	\$21,191		\$ 167	\$ 490
Percentage change from	Dec., 1962	-20 4	+4 7	+25 3	-50 ^c	+7 2	+13 8
	Jan., 1962	+44 6	+4 3	+13 1	+15 ^c	+6 2	+31 7
SOUTHERN ILLINOIS							
East St. Louis		\$ 69	18,400	\$11,303		\$ 141	\$ 130
Percentage change from	Dec., 1962	-90 7	+5 3	+18 5	n.a.	-1 7	-4 1
	Jan., 1962	+890 0	+1 1	+8 9		-5 0	+41 3
Alton		\$ 38	27,507	\$ 7,146		\$ 55	\$ 56
Percentage change from	Dec., 1962	-25 1	+7 1	+23 8	n.a.	+5 1	-10 5
	Jan., 1962	+36 5	+1 3	+2 3		+12 9	+30 7
Belleville		\$ 191	15,443	\$ 7,489		n.a.	\$ 78
Percentage change from	Dec., 1962	-8 1	+8 0	+26 6	n.a.		-21 0
	Jan., 1962	+728 7	+6 9	+15 0			+47 4

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for December, 1962. Comparisons relate to November, 1962, and December, 1961. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending February 1, 1963, and February 2, 1962.

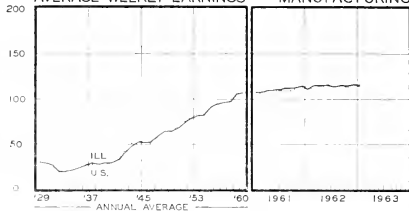
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

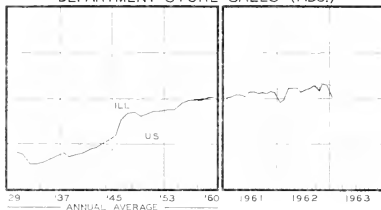
EMPLOYMENT - MANUFACTURING



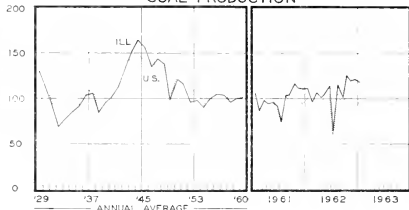
AVERAGE WEEKLY EARNINGS - MANUFACTURING



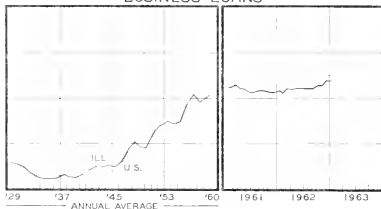
DEPARTMENT STORE SALES (ADJ.)



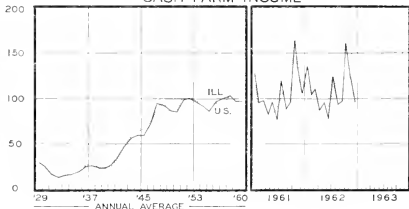
COAL PRODUCTION



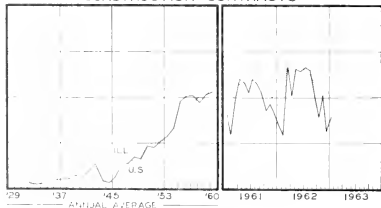
BUSINESS LOANS



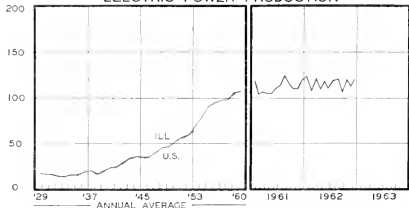
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION





PUBLISHED BY
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 20

APRIL, 1963

NUMBER 4

HIGHLIGHTS OF BUSINESS IN MARCH

The economy was making a distinct shift to the strong side in March, but some of the strength was temporary in nature. Output of paperboard attained a new high, petroleum production held on to the gains of late February, and freight carloadings rose. Automobile production continued at a fast pace, with more than 647,000 units assembled; total output in the first quarter was at the third highest level on record. The steel industry extended its rising activity through March; at the end of the month, output had been gaining gradually for nine consecutive weeks and had reached the highest point in a year. In some of these cases, the improvement has to be discounted somewhat because of seasonal factors; and in steel, inventory building played a part. Seasonal factors also affected the main two indicators that dropped — coal output and electric power production. On balance, however, production activity seemed to be on slightly firmer ground. The FRB index was up 1 percentage point to a new record slightly above 120 (1957-59 = 100).

Business also moved up at the retail level in March. Retail sales were estimated at a new record of \$20.7 billion after seasonal adjustment, 1 percent above the revised February figure and 7 percent above March, 1962. Both durables and nondurables rose the average 1 percent. Department store sales, at 120 percent of the 1957-59 average, were 5 percent higher than in February and were 2 points above the previous record of 118 set in November.

Unemployment Rate Drops

After rising in January and February, unemployment dropped in March from 6.1 percent of the labor force to 5.6 percent. The lower rate reflected both an increase in employment and a decrease in the number of people out of work; the change in each case exceeded that normally expected for the month. Despite the improvement, the unemployment rate was very little better than it was a year earlier. It appeared that adult workers found jobs more readily in March — unemployment rates for men and women declined markedly. For teen-aged workers, however, the picture was no more encouraging than in the months past. The total number of people without jobs was 4.5 million.

Employment rose by 790,000 between the survey weeks in February and March to more than 67.1 million, a record for March. The gain was well over twice that usually

expected. Both agricultural and nonagricultural employment were up.

Construction Spending Rises Seasonally

Preliminary estimates put the value of new construction in March at \$4.3 billion; the gain of 8 percent over the previous month represented the usual seasonal pickup. Compared with March, 1962, construction expenditures were 5 percent higher. Private building rose a seasonal 6 percent to \$3.1 billion, with increases in nonfarm residential, public utility, and all other private construction more than offsetting cutbacks in nonresidential categories. Public construction, at \$1.2 billion, showed a normal rise for this time of year; most of the subgroups indicated substantially greater activity.

Manufacturers' Sales, Orders Gain

The latest data available, those for February, show distinct gains in manufacturers' sales and orders. Adjusted sales were up 2.7 percent from January on the basis of preliminary figures, with a rise of 3.2 percent for durables and one of 2.2 percent for nondurables. The advance in hard goods reflected the new-found strength of steel and a continued strong showing in motor vehicles. Most other groups showed minor increases. Among nondurables, the largest percentage gains occurred in textiles and chemicals.

New orders received by manufacturers rose 2.1 percent in February as orders for durables expanded by 2.6 percent and those for nondurables by 1.5 percent. As in the case of sales, the largest additions to orders came in primary metals and transportation equipment.

Consumer Debt Continues Advance

Consumers, even though they are continuing to expand their short-term debt, are doing so at a decreasing rate. Seasonally adjusted consumer credit outstanding rose \$496 million in February, equal to an annual rate of nearly \$6 billion. The increase, however, was smaller than those of the preceding three months: the rate of growth has dropped each month from \$8.4 billion in November to February's \$6 billion. Smaller increases in most major groups contributed to the rate cut. Most of the February advance, \$436 million, occurred in instalment credit, with about half of that amount accounted for by loans on automobiles.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Reviews* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Petroleum Subsidies

The word conservation has become almost obsolete in modern economics, at least in its original meaning of preserving something in a natural state. Perhaps the main reason for this is the general acceptance of the philosophy of economic growth: the economy must always expand; anything that can contribute to increased production should be used for that purpose now, and technology can be relied on to provide adequate substitutes for any resources that might be threatened with exhaustion.

The public still accepts the nature lover's concept of conservation, but in technical discussions, the word appears most often in connection with proposals to keep prices in the extractive industries at a higher level than would prevail if the market were left unrestricted. In this context, conservation policy reverses the original concept; it is designed to encourage the expansion of capacity and promotes faster use of resources except for the effects of price increases in restricting demand. Insofar as the higher prices contribute to surplus production and stocks, they may create problems. If subsidies are then needed to sustain prices, they can hopefully be financed by the government in a way that will not unduly depress activity in other sectors.

Any mention of subsidies calls to mind the various programs enacted to support agricultural prices and production. These are by far the largest subsidies that appear in the form of direct charges on the federal budget. Over the years, however, other subsidies have also run to billions of dollars. Many of these other subsidies remain hidden from public view because there is no attempt to measure them and they are not made the subject of annual budget debate. The nature of some of these hidden subsidies and their effects on production, prices, and profits may be illustrated by current practices and policies relating to the petroleum industry.

Subsidies to Oil Producers

The primary subsidy to oil producers takes the form of a percentage depletion allowance that exempts 27½ percent of gross income from the federal profits tax. This provision goes back to the early days of industry growth when gasoline was coming into wide use as auto fuel. From the lows of the early 1890's, the price of crude petroleum had been rising rather steadily and strongly

for a generation, and the "scare talk" of the old-time conservationists suggested that depletion of fixed resources was imminent. In World War I, allowances called "discovery depletion" were adopted to encourage exploration for new sources of supply. This policy created some difficulties for tax administration, and in 1926 it was replaced by percentage depletion. Subsequently, the allowance became much more valuable as the corporate tax rose from 13.5 to 52 percent.

The percentage depletion allowance is not limited to any fixed total. It goes on as long as the property yields any income, even though it may cumulate to many times the value of the investment. It is enhanced by technical improvements that reduce operating costs and permit continued utilization of wells approaching exhaustion. Recent estimates put the deductions at \$2.2 billion a year.

In addition, development costs may be offset by receipts from other sources. Thus, after the 27½ percent has been deducted, at least part of the tax on the balance can be avoided by reinvesting in development of new wells. Since losses on dry holes and intangible costs on successful wells can be charged against any taxable income, fortunes have been built up on a practically tax-free basis. These impressive privileges were bound to attract capital—for example, from movie actors and other high-bracket taxpayers—and have given petroleum a favored investment status.

The policy succeeded in its goal of fostering expansion, but there were continual tendencies for overproduction to depress prices. To deal with this problem and to prevent wasteful and inequitable recovery practices, authorities in key states, notably Texas, stepped in shortly after percentage depletion was allowed and have since been imposing restrictions on output. This is accomplished by the "prorating" system, which restricts production from existing wells in order to maintain prices, but permits exploratory drilling for new wells to expand capacity. The net result has been to maintain capacity well in excess of production. Despite the rapid growth of output, the ratio of proved reserves to annual production has been held near 12 through most of the period since percentage depletion was enacted.

Keeping Prices High

The value of the depletion allowances varies directly, of course, with the price of crude oil. As long as the price rises, the ceiling for annual deductions also rises. The trend was upward until 1957, a year in which the special demands of the Suez crisis resulted in a 10 percent price increase. From that peak, a gradual price decline began and the producers revived an earlier campaign for price support in the form of import restrictions. In two years, little more than half of the Suez bulge was eliminated when the federal government, with an election year just ahead, established quotas to limit imports to 9 percent of domestic consumption. The price has since held steady above the pre-Suez level—a fact that stands as a tribute to the efficacy of producer pressures.

Nobody knows how far the price might have fallen in the absence of the import limitations. Hence, it is impossible to measure the extent of the price support for domestic producers, but it is certainly substantial. Here we have, in effect, a secondary subsidy imposed to ensure a level of profits adequate to guarantee the value conferred by the primary subsidy.

What has become increasingly clear in recent years

(Continued on page 8)

HIGHER EDUCATION IN ILLINOIS

Illinois is rich in resources of higher education. With 105 colleges and universities, the State is surpassed only by New York, California, and Pennsylvania. Higher education is significant in that it contributes directly to the level of today's highly trained labor force. In this respect, it is interesting to observe that Illinois ranks third in the nation in the total number of doctoral degrees granted and fifth in master's and baccalaureate degrees.

The Framework of Higher Education

The state-supported institutions of higher learning are the University of Illinois, a land-grant college at Champaign-Urbana, with an undergraduate branch and professional colleges in Chicago; Southern Illinois University at Carbondale, with branches in the East St. Louis area; Illinois State University, at Normal; Northern Illinois University, at DeKalb; Eastern Illinois University, at Charleston; and Western Illinois University, at Macomb.

The foremost of the 85 private institutions of higher learning are the University of Chicago, Northwestern University, De Paul University, the Illinois Institute of Technology, and Loyola University, all in the Chicago area; Bradley University, at Peoria; Illinois Wesleyan University, at Bloomington; and James Millikin University, at Decatur.

Combined public and private enrollments numbered 216,577 persons in 1961. Public enrollments (112,158) comprised slightly more than half of the total. Since 1950, public and private enrollments have shown increases of 78 and 22 percent respectively. Significant increases in private enrollments have occurred only since 1958.

An important factor in the over-all expansion of enrollments is the dramatic growth in junior colleges—both in numbers of students and in numbers of institutions. Enrollments have more than tripled since 1950. In the academic year 1960-61, the 24 Illinois public junior colleges enrolled approximately 40,000 students in credit courses, or the equivalent of 22,000 full-time students. Additional thousands are enrolled in non-credit courses.

Opportunities for research and study are extensive in Illinois. The libraries of the University of Illinois, the University of Chicago, and Northwestern University together have more than 7 million volumes. These holdings, plus those of the other 74 college and university libraries in Illinois bring the total number of volumes to approximately 11,650,000. The University of Illinois library ranks third in size among university libraries and fifth among all American libraries.

Needs and Prospects for Higher Education

Factors underlying the expansion of higher education in Illinois during the past decade include population growth; the Sputnik crisis, which emphasized the need both for higher education and for a reorientation of curricula and departmental programs; the greater need for advanced education in industrial employment; and

an increase in the number of scholarships granted. While present opportunities for higher education in Illinois are extensive, a look into the future is necessary. The basic college-age population in Illinois is estimated to increase by 58 percent, from 482,304 in 1960 to 763,000 by 1970. A low projection for enrollment in 1970 is 340,000, 70 percent over the actual 1960 enrollment.

Because substantial money outlays are required for a college education, junior colleges are being built to increase opportunities for study. More and more people must undertake technical training beyond the high school level to meet the demands of industry. Thus, an outstanding need is for appropriate two-year programs in a wide variety of technical fields.

A spectacular development is the proposed new undergraduate division of the University of Illinois at Congress Circle, Chicago. The new campus is expected to be occupied in 1964 with an initial enrollment of 9,000 in expanding activities of the existing Navy Pier branch. An enrollment of 20,000 in a four-year degree program is projected for 1970.

Financing Higher Education

Trends in the financing of higher education help to indicate the growing demand. Capital expenditures for all public institutions increased by 190 percent from the 1951-53 biennium to a record high of \$81,091,000 in the 1961-63 biennium. In 1961, state appropriations totaling approximately \$182 million formed 73 percent of the funds received by the public senior institutions.

Revenue receipts from fees and tuition help to determine the need for financial help from governmental sources. The principal revenue sources of private institutions in addition to tuition and fees are endowment earnings and private gifts and grants. In 1957-58, of total federal grants to higher education (approximately \$775 million), 55 percent was distributed to public schools and 47 percent to private schools throughout the nation. Public institutions have received 17 percent of the federal funds (\$67,348,000) allocated within Illinois. These funds are directed mainly into research and public service.

Junior colleges, operated by local school systems, receive over half of their funds from local property taxes. In 1959, the General Assembly passed legislation for the local establishment of junior college school districts. People of an area with the required population and financial resources may set up a junior college school district, with its own board of education, administrative offices, and teaching staff. The district is also able to tax, issue bonds, and annex territory.

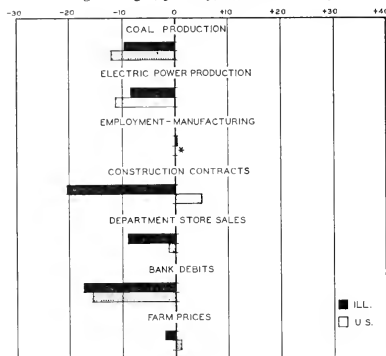
Numerous problems are anticipated for all the institutions of higher education, among which are obtaining revenues to meet expected enrollment increases; training and retaining qualified faculty members; developing a more comprehensive system of junior colleges; growing needs in vocational training; and enlarging the scope of correspondence and extension programs.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, January, 1963, to February, 1963



* Not seasonally adjusted. * No change.

ILLINOIS BUSINESS INDEXES

Item	Feb. 1963 (1957-59 = 100)	Percentage change from	
		Jan. 1963	Feb. 1962
Electric power ¹	119.8	- 8.3	+10.8
Coal production ²	106.8	- 9.7	+10.3
Employment—manufacturing ³	n.a.	+ 0.1	+ 1.5
Weekly earnings—manufacturing ⁴	116.5 ^a	+ 0.3	+ 2.6
Dept. store sales in Chicago ⁵	102.0 ^b	+ 1.0	+ 3.0
Consumer prices in Chicago ⁶	104.7	0.0	+ 0.3
Construction contracts ⁷	62.7	-20.4	+ 7.0
Bank debits ⁸	127.3	-17.2	+14.9
Farm prices ⁹	97.0	- 2.0	0.0
Life insurance sales (ordinary) ¹⁰	112.9	+ 8.3	+ 0.8
Petroleum production ¹¹	88.4	-12.0	- 8.9

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor;
⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	Feb. 1963	Percentage change from	
		Jan. 1963	Feb. 1962
Personal income ¹	450.8 ^a	- 0.4	+ 4.4
Manufacturing ²	408.0 ^a	+ 2.7	+ 3.3
Sales	57.7 ^{a, b}	+ 0.3	+ 2.7
New construction activity ³	18.4	-11.6	+ 4.1
Private residential	16.4	- 2.1	+ 5.5
Private nonresidential	12.7	-10.1	+ 5.1
Foreign trade ⁴	12.1 ^c	-46.8	-39.2
Merchandise exports	13.4 ^c	-18.3	-18.4
Merchandise imports	- 1.3 ^c		
Excess of exports	62.2 ^b	- 0.8	+10.9
Consumer credit outstanding ⁵	48.0 ^b	- 0.2	+11.5
Total credit	39.9 ^b	+ 0.9	+ 8.4
Instalment credit	40.5 ^c	+ 4.8	+ 3.9
Business loans ⁶			
Cash farm income ⁷			

Indexes (1957-59 = 100)			
Industrial production ⁸			
Combined index	+ 0.2	+ 2.7	
Durable manufactures	+ 0.4	+ 3.2	
Nondurable manufactures	- 0.2	+ 2.3	
Minerals	- 1.1	- 2.6	
Manufacturing employment ⁹			
Production workers	98 ^a	+ 0.2	- 0.2
Factory worker earnings ⁴	101	- 0.2	0.0
Average hours worked	114	0.0	+ 2.1
Average hourly earnings	114	- 0.2	+ 2.1
Average weekly earnings	101	+ 5.0	+ 6.1
Construction contracts ⁵	113 ^a	- 0.9	+ 1.8
Department store sales ⁶	106	+ 0.1	+ 1.2
Consumer price index ⁷			
Wholesale prices ⁸			
All commodities	100	- 0.3	- 0.4
Farm products	96	- 2.1	- 1.8
Foods	101	- 0.3	- 1.8
Other	101	0.0	- 0.1
Farm prices ⁹			
Received by farmers	100	- 1.0	- 1.0
Paid by farmers	106	0.0	+ 1.9
Parity ratio	78 ^d	0.0	- 2.5

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for January, 1963, compared with December, 1962, and January, 1962. ⁹ Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1963					1962
		Mar. 30	Mar. 25	Mar. 16	Mar. 9	Mar. 2	Mar. 31
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,450	1,328	1,217	1,231	1,400	1,399
Electric power by utilities	mil. of kw-hr.	16,425	16,860	16,949	17,061	17,505	15,552
Motor vehicles (Wards)	number in thous.	189	186	181	181	179	163
Petroleum (daily avg.)	thous. bbl.	7,478	7,461	7,437	7,460	7,417	7,353
Steel	1957-59 = 100	128.1	125.1	119.4	116.9	114.3	129.7
Freight carloadings	thous. of cars	559	535	517	518	533	565
Department store sales	1957-59 = 100	112	106	103	92	82	106
Commodity prices, wholesale:							
All commodities	1957-59 = 100	99.9	99.9	100.0	100.2	100.2	100.7
Other than farm products and foods	1957-59 = 100	100.7	100.6	100.7	100.7	100.7	100.8
22 commodities	1957-59 = 100	92.1	91.8	92.2	92.7	93.2	96.8
Finance:							
Business loans	mil. of dol.	35,208	35,285	34,746	34,639	34,564	33,014
Failures, industrial and commercial	number	329	295	348	302	311	330

Source: Survey of Current Business, Weekly Supplements.

^a Monthly index for March, 1962.

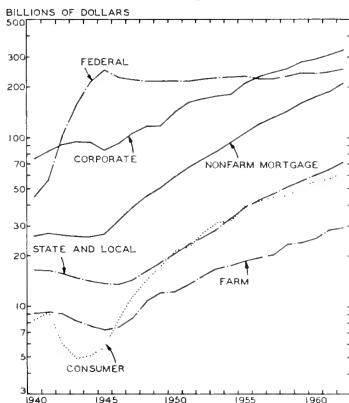
RECENT ECONOMIC CHANGES

Nation's Debt Continues Upward

Outstanding debt rose \$64 billion during 1962 as consumers, businesses, and governmental units continued to borrow more than they repaid. With the exception of the federal government's debt, where wars have accounted for the major increments, all types of debt have shown a continuing gradual increase, as indicated in the chart. The movement of the over-all total roughly corresponds to the over-all growth of the economy. The Federal Reserve Bank of Chicago points out that the years when private debt has shown the largest advances have generally been years of rapidly expanding business activity such as 1955 and 1959.

During 1962 strong activity in construction and auto buying was reflected in increased debt in such forms as mortgages and consumer instalment credit. Nonfarm mortgages accounted for almost one-third of last year's growth in debt, which reached the highest level ever recorded. Other consumer debt rose \$6 billion but the increase was less than in the record years of 1955 and 1959. Indebtedness of nonfinancial corporations was up by \$19 billion but the increment was smaller than in the immediate postwar years. Farm debt showed relatively little increase last year after a 13 percent rise the year before. The public sector accounted for almost 25 percent of last year's debt expansion. State and local sources added \$7 billion to their collective obligations, a 10 percent increase over 1961; and the federal government's debt rose some \$8.7 billion, about the same as the year before. However, despite the rapid growth of state and local obligations in recent years, the debt of these governmental units is a smaller proportion of the total than it was in 1940. The federal debt, aside from that held by federal agencies and trust funds, accounts for about a fourth of the total, the same as in 1940.

GROWTH RATES FOR MAJOR TYPES OF DEBT



Source: Annual Report of the Council of Economic Advisers in *Economic Report of the President, 1963*, p. 234.

Housing Activity

In 1962 private nonfarm housing starts reached 1.43 million units, continuing the recovery that began in early 1961. This recovery has been spread over the entire country with no one region dominating the increase. A significant aspect of the present advance is that the increase has been centered in multifamily units. Single-family housing starts, which have been unchanged for the past three years, are running about 20 percent below the peak 1959 total of 1.2 million units. However, since 1959 multifamily units have risen 82 percent to a total of 413,000 units. This pattern of growth in housing starts has applied to all regions but particularly to the Pacific Coast area where there are now roughly as many multifamily starts as single-family starts.

Several factors have combined to cause this gain in starts on multifamily units while starts on single housing units have declined and leveled off. First is the fact that the average cost of multifamily units is approximately 60 percent of the single-unit cost; and with the slowdown in income growth in the last few years the desire to maintain quality housing has resulted in more people obtaining smaller, less costly housing accommodations. The second reason is that the number of persons in the 25 to 45 age bracket, the age group that typically buys a single-family house, is still showing little growth and is not expected to grow for a few more years. As a corollary to this last reason the number of persons in the 20 to 24 and over 65 age brackets, those which make large use of apartments, has been continually increasing. Finally, with the virtual disappearance of the inflationary trends of the early post-World War II years there is more uncertainty attached to new home buying than before, since an individual can no longer be assured of obtaining his equity plus some capital gain with which to buy a newer higher-priced home.

Machine Tool Orders Up

New orders for machine tools rose 72 percent in February from January to a total of \$7.3 million. Orders for metal-cutting tools, the industry's largest single item, increased 17.5 percent to \$54.3 million, the highest level since September, 1961. New orders for metal-forming tools jumped 34.5 percent to \$18.8 million, the best since January, 1961.

The machine tool industry predicts that for the entire first quarter the total will be better than the \$220 million recorded in the same period of 1957, the previous high. For the year, the industry expects a 15 percent gain over 1962, which would raise new orders to \$820 million, the best since the 1956 record year. The upward movement in this industry is being watched closely because its products are basic to nearly all industrial production and because nearly all new orders are coming from within the United States.

Reasons given by the industry indicate divergent views. Some believe that a new cycle of business expansion may be taking place. Others feel that the increase in new orders reflects the new depreciation rates and 7 percent investment tax credit that the government put into effect last year. Industries which have shown the greatest increases in new orders have been farm equipment makers, heavy machinery producers, and the tool and die industry. Also defense contractors, notably in the aerospace field, have increased their new orders.

CREDIT UNIONS OF ILLINOIS

WALTER POLNER, Director of Research
Credit Union National Association

Illinois, which tallied 1,715 active credit unions as of February, 1963, leads the nation in credit union numbers. Credit unions in the State enjoyed an eightfold increase in assets in the period 1945 to 1961. They tripled their membership in this period and by 1961 were lending members 20 times more money annually than they were at the close of World War II.

This phenomenal upsurge in raw numbers has led to both wild appraisals of credit union strength and wild predictions about credit union growth. Both the appraisals and predictions are misleading, but there can be little doubt that these cooperative thrift and lending institutions are enjoying real growth and are becoming increasingly important in the Illinois economy. This article hopes to supply much needed perspective for the competitive and comparative status of the state's credit unions.

Credit Union Savings

Credit unions are nonprofit corporations and can in Illinois be chartered either under the Federal Credit Union Act of 1934 or the Illinois act of 1925. Although most credit unions in the State avail themselves of Illinois jurisdiction, more than 200 hold Federal charters and are consequently supervised by the Bureau of Federal Credit Unions of the Department of Health, Education, and Welfare.

Crucial to the organization of a credit union is the pre-existence of a common bond. Credit unions in Illinois are usually predicated on the bond of employment, but some groups revolve around church or association membership. Almost all credit unions are small in numbers. The median falls now at 203 members.

Because of the common bond, credit union members feel they know each other well enough to operate a successful savings and loan organization. Members save, creating a pool of capital, and members borrow at low interest, creating earnings to pay dividends to savers.

The prime objective of a credit union is to encourage its members to save regularly. To do this, credit unions pay a competitive dividend. At the end of 1961 the median credit union dividend rate in Illinois was 4 percent. Since commercial banks in the State at that time did not pay 4 percent, savers in credit unions often earned about 25 percent more than they could have with the commercial bank alternative. As an additional incentive to saving, most credit unions, in Illinois and elsewhere, purchase from earnings two kinds of insurance for their members. The first, depending upon the age of the insured member, provides about a dollar of life insurance for each dollar (up to a limit which is usually set at \$2,000) the member has saved in the credit union. The second, loan protection insurance, pays off a borrower's loan in the event of his death or permanent disability.

The result of this encouragement to save is not always spectacular. Although data are not available for Illinois credit unions, a recent survey of credit unions throughout the United States showed that half of credit union members have \$100 or less in credit union shares. (Shares, usually valued at \$5 each, are the form of savings in credit unions.) This figure would also likely fit Illinois. The median savings in a credit union in the State is

\$64,991. This low rate of savings in Illinois prevails in spite of the fact that nearly 1,000 Illinois credit unions have payroll deduction arrangements with their sponsoring companies. Most credit union members are apparently more interested in borrowing.

The Growth of Savings in Illinois

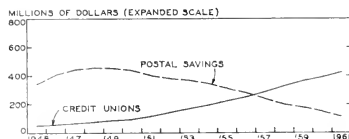
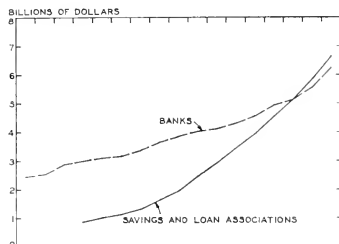
Statewide, what are the results of these competitive rates, insurance benefits, and payroll deduction plans? By the end of 1961, credit unions in Illinois had more than \$422 million in member savings, an increase since 1945 of \$375 million, as shown in the accompanying chart. This amounts to a rate of increase of about 15 percent per year. In per capita terms, a bit over \$40 per Illinoisan had found its way into the state's credit unions.

This growth seems momentous — until one compares it with the savings of individuals in other Illinois financial institutions. During the same period, savings by individuals in Illinois banks rose from \$2.4 billion to \$6.3 billion. Savings and loan associations in the meantime drove ahead to become the leading savings depository in Illinois, rising from \$846 million in 1948 to \$6.7 billion in 1961.

Illinois also leads the nation in postal savings. In June, 1962, there was still more than \$96 million in postal savings accounts, despite the fact that the rate of interest there is the lowest of all savings alternatives in the State. It is apparent that, while credit unions have been able to attract savings from their members in Illinois, it takes a lively imagination to see them as becoming a leading savings institution at the expense of banks and savings and loan associations.

The dollar sums placed in savings in all except the Postal Savings system are still going up. As the savings

SAVINGS HELD BY INDIVIDUALS IN ILLINOIS



of the American people increase, they are placing more and more of these savings into financial institutions. Part of these savings go into the credit unions. A good deal of these savings go elsewhere. Based on recent trends, the credit union share of this growing sum of savings seems to be on a moderate downward trend.

In order to obtain savings, credit unions must obtain members. In Illinois, 900,000 people have voluntarily joined credit union ranks; one in 12 of the state's population is represented by a credit union share account. (Membership is earned by paying 25-cent membership fee and purchasing at least one credit union share.) Again, this may seem large, but it has a somewhat deflating context.

Data on number of depositors in Illinois banks are not available for comparison, but those on membership in savings and loan associations reveal that these organizations represent the savings of nearly 3 million members—triple the number of credit union members. While 400,000 people joined Illinois credit unions in the decade of the 1950's, nearly 2 million took out accounts at savings and loan associations. An educated hunch would be that a similar story could be told for Illinois commercial bank depositors.

Lending by Credit Unions

A second *raison d'être* of credit unions is lending to members. Credit unions hope that the member will aid himself by systematic savings, but they do not regard savings as an end in itself when thinking in terms of the aggregate. Rather, the credit union sees savings as creating a fund from which low-cost instalment loans can be made to members for worthwhile purposes.

Loans are made at a maximum rate of interest of 1 percent per month on the unpaid balance, and the Illinois median credit union now has \$51,121 in funds lent under this ceiling rate. Statewide, credit unions at the end of 1961 had loans outstanding of \$318 million. And this is yet another figure that needs perspective.

Information is available, for example, on Illinois bank consumer loans. These figures show an astronomic growth from \$124 million in 1945 to more than \$1,617 million in 1961. This would indicate that credit unions, though enjoying healthy growth, are far from catching up with banks and savings and loan associations in Illinois. This is often in spite of the fact that many credit unions reduce the low lending rate of 1 percent per month even further by providing a patronage refund. At the end of 1961, more than 250 Illinois credit unions reported they had given members an interest rebate.

A comparison of assets by financial institution tells the story even more clearly. The median credit union in the Illinois array has assets of \$71,043, and state-wide, credit unions have aggregate assets of \$446 million. This can be compared with bank assets of more than \$21 billion in the State, and savings and loan association assets of more than \$7.7 billion. The gap between what the credit unions have and what these institutions have is not declining.

In fact, current figures reveal that credit unions lead only on raw numbers of units. There are over 1,700 credit unions in Illinois compared with 976 banks and 594 savings and loan associations. But credit unions, as pointed out, have the smallest base of population per unit.

The credit union movement in Illinois has grown until the State leads the nation in number of credit unions, but this rate of growth may be misleading if taken too literally. The commonest error of interpretation arises

from continuing the 1945-61 trend line indefinitely, without considering the environment of the growth. Reason would indicate that a popular institution such as the credit union would enjoy a rapid growth rate after emerging from the Depression and the disorganization of the war years, but that this should be followed by a period of decelerating growth.

Facing Increased Competition

At one time credit unions were practically the only place in the country that a person of modest means could obtain instalment credit at decent rates. At one time certain of the banking profession disdained to handle the savings accounts of those who would be account members of credit unions. But there has been growing interest among savings banks and savings and loan associations in consumer credit and personal loans. The credit union loans still afford the best terms available to many of their members, but the competition has tightened.

During the postwar period the banks have definitely decided that instalment loans to consumers are good business, and their terms are now generally close to those of the credit unions. Both have taken a good deal of business away from the consumer finance companies. The credit unions have caught up and have surpassed these companies. They now account for 10 percent of instalment credit, as compared with 4 percent in 1945. The share of the consumer finance companies, in contrast, has been slowly declining. The competition has forced all institutions to improve their terms, to the great benefit of the consuming public.

The banks have also improved their competitive position in attracting savings. Last year they were authorized to pay 4 percent interest on savings accounts, which is equivalent to the rate paid by many other financial institutions. Quite a few savings and loan associations have gone fractionally above this, and nearly one-third of the nation's credit unions paid 5 percent or more. No commercial banks and practically no savings and loan associations pay this high a dividend. Yet they obtain the money. Last year these two institutions by themselves picked up in savings more money than the credit unions have after 30 years of very hard work.

In Illinois last year credit unions reported to the Illinois League that they spent \$52,000 on education, advertising, and promotion, or an average of about \$30 per credit union in Illinois. There was probably some under-reporting, but even if this amount is doubled, only about \$100,000 was spent in Illinois for education, advertising, and promotion. This would still bring the average up to only \$60 per credit union. It is not unremarkable that the state that puts out the most money for education, advertising, and promotion—Michigan, with over \$700,000—was able to widen its share of the savings pie in Michigan, while the rest of the credit unions in the nation seemed to see the competition take over larger and larger shares of the savings of the American people.

In reasonable perspective, credit unions are important in Illinois, and that importance is growing. In the Illinois movement, every measurable criteria—volume of savings, number of savers, number of officers, volume of instalment lending—is up. No one believes that the credit union movement will stagnate in its present form. We will grow as our members' needs grow. But credit unions recognize that they are a little like Alice in *Through the Looking Glass*: it is going to take running twice as fast just to remain in the same place.

Petroleum Subsidies

(Continued from page 2)

is that the entire world is in an era of plentiful supplies of fuel. To other countries our import restrictions on oil are an effort to dam up the abundance of low-cost supplies flowing in other parts of the world; and our attempts to prevent the flow of Soviet oil to the West are a strained supplement to that more general policy. Such efforts to inhibit the development of petroleum industries abroad are not likely to succeed. It was in fact the breakdown of restraints on Middle East production that revealed our competitive weakness.

If any case can be made for import quotas, it lies in their possible need as a temporary measure. One can hardly object to preventing chaos in a period of transition. But our policy is being made permanent in character, with the goal of reserving the lion's share of a growing market to domestic producers. It rules out, of course, any price relief to domestic consumers.

No doubt the quota system is a severe blow to foreign industries. The primary-producing countries have expanded—in part under our urging and with our assistance—but they can hardly see a profitable future in a situation where expansion is frustrated by exclusion from key markets. With a tariff, they could at least appraise the possibilities of competing, but the quota confronts them with an insuperable obstacle. With trade thus disrupted, they are bound to look for counter measures, and some proposals for organization of the main producing areas have already been made. There is no telling what difficulties we may encounter, but the good will of other world producers can hardly be expected.

The Basis for Policy

Many arguments are of course made to justify the inequities and risks inherent in present policy. The old conservation argument about a fixed resource that will soon be exhausted is now generally ignored. If it were taken seriously, domestic production should be restricted in favor of imports. Industry experts recently testified that no shortage need be expected for at least 20 years, and this experience has been repeated decade by decade. Reserves have expanded with production and will probably continue to do so for some time, since some authorities place the ultimate potential at several times today's proved reserves.

The more recent versions of the argument for special treatment of oil companies stress the risks involved in exploration and cite, usually with some overstatement, the number of dry holes experienced for each successful completion. Whatever sense this may make for the individual operator who drills only one hole, it makes none for the larger operators or the industry as a whole. With over 10,000 exploratory wells being drilled each year, success is on an actuarial basis, and the success ratio has been more stable than the number of exploratory wells drilled. From 20 percent in the mid-1950's, it was down only to 18 percent in 1961; so there is every prospect that when additional reserves are needed, increased drilling will bring them in.

As a reason for import controls, it is contended that low-cost foreign competition will undermine the industry and disemploy many workers. This is the usual outcry raised by every industry seeking protection, and it has no exceptionally impressive feature in this case. The total number of workers in the producing end of the business is less than one-half percent of the labor force and has

already declined by over 10 percent since 1957. No doubt some of the remaining workers would be displaced from marginal operations if foreign competition drove prices down, but the industry's position is not so precarious that an acceleration of the decline in employment would be a calamity, especially as some offsetting increases in employment could be expected in other parts of the economy. If foreign competition is too tough on an over-all basis, an over-all adjustment should be made. Piecemeal protection of specific industries reduces over-all efficiency and hampers development both at home and abroad.

It is also contended that any decrease in the prices of oil or gas will bring about a reduction in exploration and threaten future reserves. Here a little truth is made to go a long way. A recent study by the Federal Power Commission reveals that prices are much less important than volume demanded in determining the number of exploratory wells drilled. A 1 percent change in the price of crude has less than one-third the influence of a 1 percent change in the production of crude, and a 1 percent change in the price of natural gas has only about one-tenth the influence of a corresponding change in marketed production. Changes in other factors, such as the success ratio and the average depth of exploratory wells, are also more heavily weighted than prices.

Oil's Role in National Defense

The real clincher cited in support of present policy is the importance of the industry to national defense. The significance of this point is emphasized in the import-control system by exempting overland oil shipments from Canada and Mexico. Increasing shipments from these sources have been called "a loophole" by some oil men, and the over-all import quota was recently revised to ensure tighter control of market shares for domestic producers. As overland shipments rise, quotas for overseas imports are, of course, correspondingly squeezed.

It would not be wise to discount the defense argument too much but neither is it wise to accept it completely. The nature of war is changing. A war severe enough to eliminate our access to overseas supplies would also disrupt the economy in other ways. Who can pretend to know how much our transportation system, including overland transportation, would be affected? And who can tell the amount of transportation that would still be essential? Certainly we would not have to fuel 70 million motor vehicles as we do at present.

As for the petroleum industry itself, it is not at all clear that the position is so strikingly different from other minerals that it requires all the special treatment accorded it. Existing proved reserves are in effect a long-term stockpile that simply cannot be stored in refined form. As underground reserves, they are little subject to damage. To make them usable will require ample refining capacity, and it is the refineries that are subject to the greater peril. But refineries may be built to process imported as well as domestic crude, and both our general economic strength and our international relations would be improved by minimizing trade restrictions.

The computation of essential requirements and supplies for any commodity under war conditions is a quantitative problem that cannot be answered by any slogan. No such computation has been made to demonstrate the compelling need for maintaining domestic crude production and capacity at an all-time peak. Why, then, must we unendingly tax our consumers and antagonize our world neighbors for the benefit of the influential few engaged in this industry?

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Manpower Training

In mid-1962 the Congress approved the Manpower Development and Training Act (MDTA), which is aimed at helping unemployed workers meet the requirements of available jobs by retraining those who desire such aid. By the end of 1962 the Departments of Labor and of Health, Education, and Welfare had given approval for 430 training projects in 49 states to help 16,160 trainees obtain needed occupational skills, and 38 states had actually begun 291 classes with 6,315 enrollees. These enrollees were taking training in 115 different occupational categories ranging from highly skilled jobs in the professional and technical group to semiskilled duties in the service field. By the end of the year 1,433 enrollees in 83 short-term classes had completed their training and 64 percent of them had obtained jobs in their new occupations by the middle of January. Another 7 percent had also obtained jobs but these jobs were not related to their new skill. Of the individuals enrolled in the program, 21 percent had been unemployed for more than a year. The 22 to 34 age group had the highest proportion of unemployed, with 43 percent.

Geographic Changes in Employment

A redistribution of occupational groups during the 1950's has been reflected in the shift of workers among the various regions and states. The rates of total employment growth were highest for the Mountain, Pacific, and South Atlantic regions, as reported by the 1960 census. Most of the states in the other six regions failed to retain their former share of total employment and five states from the four central regions showed actual losses in numbers of employed workers, as indicated on the map.

In line with the over-all pattern of total employment growth, most of the major nonfarm occupation groups showed increases in the South and West. These were partly offset by significant drops in the number of farm workers moving out of the South Central regions into the North and West. During this decade, the durable goods manufacturing industries with the most rapid growth,

such as transportation equipment, electrical machinery, and fabricated metal products, were locating in the South and West. In addition, the defense contracts for scientific research and development in the aerospace and electronics industries also were concentrated in these areas. There has been a continuing movement into these areas of some declining or slower-growing nondurable industries such as textiles, apparel, and food processing.

The fastest employment growth, about 2.5 times the national rate of 14.3 percent, occurred in the Mountain and Pacific regions with rates in some states running considerably higher. The slowest growth took place in the agricultural and mining states of the West North Central and East South Central regions, reducing their share of total employment from 16.3 percent to 14.7 percent.

New Survey of Consumer Expenditures

The Bureau of Labor Statistics has released preliminary results from its new Survey of Consumer Expenditures for the seven metropolitan areas of Atlanta, Boston, Chicago, Detroit, New York, San Francisco, and Washington, D.C. This survey, the first since 1950, includes information on consumption expenditures, income and savings, and gifts and contributions. When it is finished it will include figures from 66 metropolitan areas and towns across the United States. The primary objective of this survey is to obtain data for the revision of the consumer price index and also to provide an analysis of consumer expenditures for economic policy, marketing, and academic research.

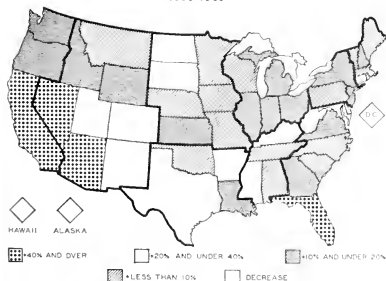
In the seven areas for which results are now available the category of personal consumption expenditures accounted for 85 to 94 percent of disposable income, and gifts and contributions for another 4 to 7 percent. In the matter of net change in assets and liabilities, saving ranged from a dissaving of 3 percent of disposable income in the San Francisco area to a saving of 8 percent in the Washington, D.C., area. The data for these seven metropolitan areas point up the continuing downward trend since 1900 in the proportion of consumption expenditures allocated to food and clothing. Comparing these data with those from the 1950 survey, the proportion of total expenditures for automobile purchases and upkeep increased in all cities but San Francisco. Also, medical care increased in all seven areas with percentage increases ranging from 62 to 85.

Population Rises, but Rate Falls

The total population of the United States (including armed forces abroad) was estimated to be 188,264,000 on February 1, 1963, according to the Bureau of the Census. This figure represents an increase of 4.6 percent since April 1, 1960, the date of the most recent census, and an advance of 1.5 percent over the estimate for February 1, 1962.

The country's birth rate, however, continues to decline, falling from 116 per 1,000 women of childbearing age in 1961 to 109 per 1,000 last year. The recent decline in the birth rate can be largely explained, says the National Industrial Conference Board, by the changing age composition of the population. The most recent statistics for the period 1957 through 1960 suggest that the birth rate for all age groups has declined.

STATE RATES OF CHANGE IN EMPLOYMENT, 1950-1960



Source: U.S. Department of Labor, *Monthly Labor Review*, January, 1963, p. 2.

LOCAL ILLINOIS DEVELOPMENTS

Employment Shows Gains

Manufacturing employment in Illinois stood at 1.2 million in mid-February. This was slightly above the previous month and an increase of 1.5 percent over February, 1962. Employment was higher in both durable and non-durable goods manufacturing; durable goods had 15,000 more jobs and non-durable goods 3,000 more than in the year-earlier month.

Other industry divisions in which employment was up were government; finance, insurance, and real estate; wholesale and retail trade; and services and miscellaneous industries. The largest year-to-year gain was in the service industries with an increase of 21,500 jobs, principally in hospitals, business services, and private educational institutions.

Total nonagricultural employment in Illinois reached 3,526,000 in February, 2.1 percent above the 1962 figure and a record high for the month of February.

In the Chicago area nonagricultural employment was 48,000 ahead of a year ago, despite the fact that jobs in manufacturing industries declined by 2,300. Although February marked the fifth consecutive monthly decline in production employment, the total employed in manufacturing still topped the year-ago mark by nearly 12,000 in the Chicago area.

Urban Renewal Projects

As of January 1, 1963, the federal Urban Renewal Administration had \$150 million reserved for the urban renewal program in Illinois this year. According to regional director Dean Swartzel, 21 Illinois cities and towns were engaged in renewal projects at the beginning of 1963 and the number was expected to increase during the year.

A total of 57 projects were at some stage of development or had received federal approval. Chicago led the State with 30 projects under way or planned, for which \$134.5 million had been allocated and \$47.7 million spent. Elgin had the next largest appropriation with \$2.5 million for a 25-acre civic center, and Chicago Heights had \$1.9 million reserved with \$1.2 million allocated for a program involving 55 acres on its east side. East St. Louis was next with \$1.6 million appropriated; and Joliet, North Chicago, and Maywood each had approximately \$1.2 million allocated.

Other locations with projects planned or in action were Alton, Aurora, Bloomington, Carbondale, Cairo, Champaign, Decatur, Galesburg, Robbins, Peoria, Rock Falls, Rock Island, Springfield, and Waukegan.

The Urban Renewal Administration has also granted \$27,000 to the Illinois Board of Economic Development for comprehensive planning in 11 locations; these include Gallatin County, Equality, Omaha, Shawneetown, Saline County, Muddy, Carrier Mills, Galatia, Harrisburg, Raleigh, and Norris City. This grant, plus \$9,000 in state and local funds, will be used to finance work on mapping studies of economics, population, land use, transportation, and community facilities.

Prospective Crop Plantings

As of March 1, crop plans of Illinois farmers indicated a 3 percent increase in 1963 crop acreage compared with that of 1962. According to the Illinois Cooperative Crop Reporting Service, this would amount to a total of 20.7 million acres.

Soybean acreage is expected to total a record 5.7 million acres in 1963—2 percent above the number of acres planted in that crop in 1962 and 12 percent above the 5-year average.

Corn growers expect to plant 9.1 million acres, 6 percent more than was planted in corn last year and 8 percent over the planted acreage of 1961, the first year of the feed grain program.

An estimated 1.8 million acres sown in winter wheat is 17 percent above that sown last year. There is still some question as to damage resulting from the severe winter, but wheat appears to be in fairly good condition in most areas of the State.

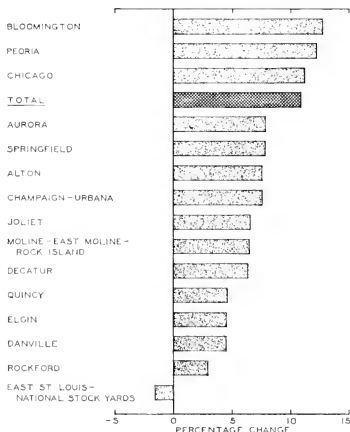
Increases in soybeans, corn, and wheat will more than offset declines in other crops. This year's hay acreage is expected to decline 2 percent to 2.0 million acres, and growers plan to seed 1.9 million acres of oats—9 percent less in 1962.

Bank Debts Rise

The total bank debts of 15 major Illinois cities increased to \$274 billion in 1962, a gain of 10.8 percent from the 1961 total of \$247 billion. Monthly totals during 1962 ranged from \$18.4 billion in February to a high of \$25.3 billion in December. All the monthly totals exceeded those of the previous year.

The largest percentage gain for a city in 1962 occurred in Bloomington, with an increase of 12.7 percent (see chart). The second and third largest gains, 12.1 and 11.1 percent, occurred in Peoria and Chicago. Increases above 6 percent were shown in Aurora, Springfield, Alton, Champaign-Urbana, Joliet, Moline-East Moline-Rock Island, and Decatur. Bank debts rose by smaller percentages in all of the other cities except East St. Louis, where they declined slightly, 1.6 percent.

CHANGES IN BANK DEBITS, 1961 TO 1962



Source: Federal Reserve Board.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1963

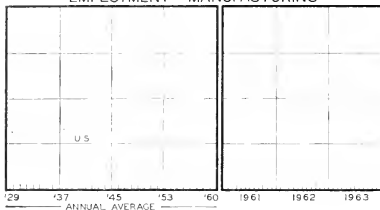
		Building Permits ^b (000)	Electric Power Con- sumption ^c (000 kwh)	Estimated Retail Sales ^d (000)	Depart- ment Store Sales ^e	Bank Debits ^f (000,000)	Postal Receipts ^g (000)
ILLINOIS...							
	(Jan., 1963.	\$26,981 ^a	1,484,080 ^a	\$601,912 ^a		\$21,169 ^a	\$18,549 ^a
Percentage change from	Feb., 1962	+0 6 +9 5	-1 0 +5 0	-21 4 +7 2	-9 +4	-17 2 +14 9	-5 3 +10 1
NORTHERN ILLINOIS							
Chicago...							
	(Jan., 1963.	\$14,962	1,079,878	\$439,062		\$19,705	\$15,841
Percentage change from	Feb., 1962	-10 3 -25 0	-0 2 +4 2	-17 7 +6 1	-9 +3	-17 3 +15 8	-3 9 +9 6
Aurora...							
	(Jan., 1963.	\$ 1,053	n.a.	\$ 9,768		\$ 77	\$ 178
Percentage change from	Feb., 1962	+67 8 +131 8		-25 1 +5 8	n.a.	-15 7 +7 6	-18 6 +4 6
Elgin...							
	(Jan., 1963.	\$ 218	n.a.	\$ 6,817		\$ 47	\$ 155
Percentage change from	Feb., 1962	+120 5 +19 8		-29 8 +10 5	n.a.	-26 5 +3 3	-18 2 +8 8
Joliet...							
	(Jan., 1963.	\$ 595	n.a.	\$11,458		\$ 86	\$ 139
Percentage change from	Feb., 1962	+13 3 +59 4		-32 0 +8 8	-4 -4	-15 6 +4 2	-11 5 +27 4
Kankakee...							
	(Jan., 1963.	\$ 45	n.a.	\$ 5,538		n.a.	\$ 77
Percentage change from	Feb., 1962	+24 9 -85 8		-34 7 +14 7	n.a.		-10 2 +11 0
Rock Island-Moline...							
	(Jan., 1963.	\$ 301	33,569	\$12,110		\$ 118 ^b	\$ 216
Percentage change from	Feb., 1962	+10 2 -17 3	-5 7 +8 5	-29 7 +16 2	n.a.	-13 6 +10 2	-3 8 +4 7
Rockford...							
	(Jan., 1963.	\$ 993	66,121 ^c	\$21,238		\$ 194	\$ 306
Percentage change from	Feb., 1962	-17 2 +87 1	-3 7 +7 9	-26 2 +9 1	-3 ^e -1 ^e	-12 0 +1 6	-4 9 +14 2
CENTRAL ILLINOIS							
Bloomington...							
	(Jan., 1963.	\$ 147	15,646	\$ 6,475		\$ 87	\$ 140
Percentage change from	Feb., 1962	+116 2 -59 7	-1 8 +18 6	-30 8 +10 5	n.a.	-21 0 -9 3	-12 1 +5 4
Champaign-Urbana...							
	(Jan., 1963.	\$ 51	20,113	\$ 9,663		\$ 91	\$ 164
Percentage change from	Feb., 1962	+56 7 -52 6	-2 1 +14 1	-29 5 +13 1	n.a.	-17 4 +16 7	-9 6 +17 8
Danville...							
	(Jan., 1963.	\$ 76	21,791	\$ 6,571		\$ 52	\$ 88
Percentage change from	Feb., 1962	+1 5 -85 7	-0 4 +8 1	-32 0 +11 6	-1 +5	-15 2 +11 2	-20 4 +24 3
Decatur...							
	(Jan., 1963.	\$ 145	42,004	\$11,769		\$ 123	\$ 153
Percentage change from	Feb., 1962	-28 5 -75 1	-1 2 +4 8	-29 7 +14 3	+7 ^e +3 ^e	-14 8 +6 8	-13 8 +9 8
Galesburg...							
	(Jan., 1963.	\$ 7	12,505	\$ 4,612		n.a.	\$ 55
Percentage change from	Feb., 1962	-50 0 -79 9	+7 4 +18 6	-34 6 +12 1	n.a.		-20 2 +13 2
Peoria...							
	(Jan., 1963.	\$ 1,811	69,734 ^e	\$17,771		\$ 236	\$ 358
Percentage change from	Feb., 1962	+5 8 +653 9	-1 6 +6 1	-33 0 +0 3	+1 +3	-16 7 +4 8	-0 9 +14 8
Quincy...							
	(Jan., 1963.	\$ 76	15,700	\$ 5,231		\$ 51	\$ 86
Percentage change from	Feb., 1962	+60 3 -50 1	-6 4 +2 4	-39 0 +3 9	n.a.	-20 7 +2 9	-21 5 +15 0
Springfield...							
	(Jan., 1963.	\$ 6,275	47,916	\$15,289		\$ 140	\$ 394
Percentage change from	Feb., 1962	+714 4 +3,345 7	-7 9 +4 3	-27 9 +20 6	-3 ^e +3 ^e	-16 0 +3 0	-19 4 +19 1
SOUTHERN ILLINOIS							
East St. Louis...							
	(Jan., 1963.	\$ 41	17,951	\$ 8,244		\$ 114	\$ 82
Percentage change from	Feb., 1962	-40 4 -66 4	-2 4 +2 8	-27 1 +11 3	n.a.	-18 6 5 4	-36 7 +7 1
Alton...							
	(Jan., 1963.	\$ 92	25,472	\$ 5,040		\$ 46	\$ 46
Percentage change from	Feb., 1962	+137 9 -9 8	-7 4 +1 2	-29 5 +1 4	n.a.	-17 0 +6 8	-17 8 +5 6
Belleville...							
	(Jan., 1963.	\$ 93	15,590	\$ 5,256		n.a.	\$ 69
Percentage change from	Feb., 1962	-51 4 +59 9	+1 0 +17 8	-29 8 +12 7	n.a.		-11 6 +24 5

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.^d Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for January, 1963. Comparisons relate to December, 1962, and January, 1962. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. ⁷ Four week accounting periods ending March 1, 1963, and March 2, 1962.

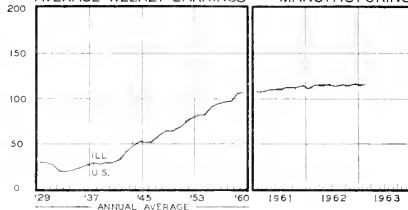
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

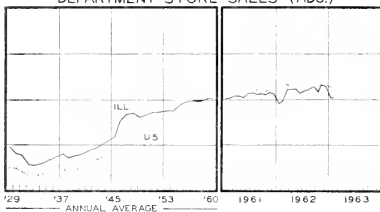
EMPLOYMENT - MANUFACTURING



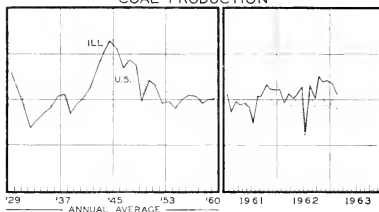
AVERAGE WEEKLY EARNINGS - MANUFACTURING



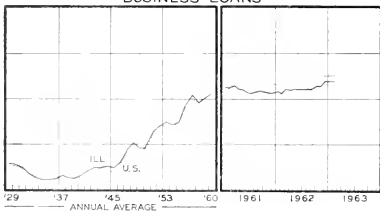
DEPARTMENT STORE SALES (ADJ.)



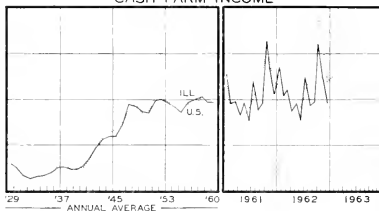
COAL PRODUCTION



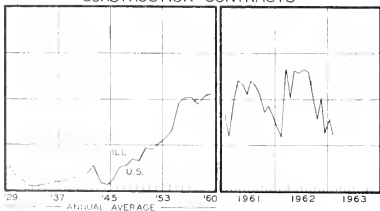
BUSINESS LOANS



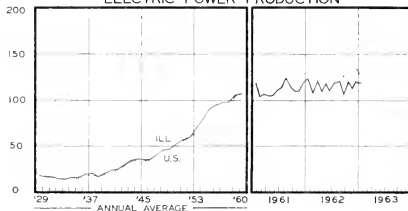
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW
A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 20

MAY, 1963

NUMBER 5

HIGHLIGHTS OF BUSINESS IN APRIL

Industrial production maintained its upward push in April. Steel output continued to be a strong factor, and not entirely because of strike hedging, since consumption was also reported to be at a higher level. Automobile production was up nearly 7 percent from the March figure to 691,000 units. As in other recent months, the number of assemblies for April was the highest for the month since 1955, the industry's peak year so far. Sales of cars more than matched output. The number of American-built new cars sold in April exceeded 700,000, a record for the month and the second-highest monthly total ever reached. Only May, 1955, sales were higher. Over all, the Federal Reserve Board's seasonally adjusted index of industrial production rose from 120.6 (1957-59 = 100) in March to a new record of 122.4. In addition to steel and autos, consumer goods (such as television sets), coal, crude oil, and chemicals also gained.

Retail sales in April were off from the March level. After adjustment for seasonal factors, total sales amounted to \$20.2 billion, down 1 percent from the previous month but 3 percent above sales in April, 1962. Both durables and nondurables declined by the average 1 percent. The only major category to show an increase was the automotive group; all others held steady or slipped somewhat.

Employment Gains

Employment moved higher again in April, marking the third month in a row to show improvement. The increase of 949,000 was slightly greater than that expected and raised the total to 68.1 million. The change in employment was coupled with a more-than-seasonal advance of 511,000 in the civilian labor force and a seasonal decrease of 438,000 in the number of unemployed workers.

Nonfarm employment was also up more than seasonally and for the third consecutive month; a gain of 612,000 carried the total to 63.4 million. Between mid-January and mid-April, nonagricultural employment moved upward from the level maintained during the latter part of 1962; during the early 1963 period, the number of nonfarm workers increased by 800,000.

Construction Up Seasonally

Spending for new construction in April, at an estimated \$4.8 billion, was 10 percent higher than in March; the advance was approximately what would be expected

at that time of year. Compared with the year-earlier month, April expenditures showed a gain of 4 percent.

Private construction outlays reached \$3.5 billion; the 11 percent increase was well above the usual seasonal rise. The nonfarm residential category particularly was stronger than in March. Sizable percentage gains were also indicated for such smaller items as farm construction and public utilities. Public construction also moved up, but less than seasonally. A 10 percent advance to \$1.4 billion was only about two-thirds of that expected.

Consumer Credit Advance Slowing

The rate at which consumers are adding to their short-term debt dropped again in March. The seasonally adjusted total of consumer credit, at \$62.3 billion, was \$414 million higher at the end of March than it was a month earlier. The equivalent annual rate of \$5.0 billion marked the fourth consecutive monthly decrease in rate. As usual, nearly all of the increase over the previous month occurred in instalment credit, which rose \$400 million to \$48.2 billion. Additions to automobile loans outstanding accounted for somewhat more than half the advance in instalment debt, and expansion of personal loans for another fourth. Despite the fact that instalment debt grew less than in the other two months of the first quarter, the increase was still well above that for March, 1962.

Manufacturers' Sales, Orders Up Slightly

March sales by manufacturers were fractionally higher than the previous record set the month before. On an adjusted basis, sales amounted to nearly \$34.3 billion. Durable goods sales were very slightly above their February level, reaching \$16.6 billion. The iron and steel industry showed much the largest advance, 7 percent. Producers of machinery, both electrical and nonelectrical, indicated very modest gains; sales of other durables dropped somewhat. In nondurable goods March's \$17.7 billion was also above the month before, but only by a fraction of a percent. Increases were widespread but small.

New orders also set a record in March, rising to \$34.8 billion after seasonal adjustment. The gain was about equally split between durables and nondurables. New orders received for steel products dominated the rise in durables, more than offsetting drops in two other categories — machinery and transportation equipment.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The Review will be sent free on request.

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The Price of Natural Gas

Consumption of natural gas more than quadrupled from 1946 to 1961, and prices also rose sharply during this period. The average field or wellhead price to pipelines almost trebled, rising from 5.3 to 15.1 cents per 1,000 cubic feet; the price to industrial consumers almost doubled, reaching 31.2 cents in 1961; and the price to residential and commercial consumers rose by about two-thirds to 99.7 cents.

At the outset, the huge surplus in the producing fields kept prices there far below the value of the gas as fuel at points of use. Pipeline companies that could move it were able to make handsome returns and, with demand seemingly endless, found that they could readily pass any price increases on to consumers. So they proceeded to contract at ever higher prices for the new supplies becoming available. This went on all through the years of the great boom in pipeline building.

Only in the last year or so have these trends shown signs of faltering. As the pipeline network was extended into most areas, the growth of demand slowed; increases of 10 percent annually in the 1946-50 period dropped to 3 percent in the early 1960's. The fear of eventual shortages dwindled as new discoveries kept proved reserves rising despite increasing use. While the price of natural gas rose, the prices of coal and fuel oil fell from their 1957 peaks, so that gas lost most of its competitive advantage. Some supplies previously withheld were thrown on the market. The pipeline companies, finding themselves amply contracted, left some supplies uncommitted. By 1962, a surplus had again seemingly developed. Producers without a market for their gas began to cut prices, and several distributors reduced even their rates to consumers.

Field Prices Permitted to Rise

In contrast to gasoline and oil, which are competitively distributed, natural gas can only be brought to market in any locality through a monopoly system of pipelines. Its price has therefore been subject to regulation like any other utility operating under similar circumstances. Nevertheless, the whole postwar inflation of prices was allowed to proceed with little hindrance.

Since most of the gas moves in interstate commerce, control of field prices, though not of consumers' prices, was put under the jurisdiction of the Federal Power Commission (FPC). Court decisions affirmed its powers

and even directed it to act, but the FPC was so entangled in pressures from interested parties, in endless arguments and counterarguments, that it remained indecisive. Cases piled up, and price increases become effective without challenge. Lacking the will to regulate, the FPC pursued an essentially do-nothing policy all through the 1950's.

All the people involved seemed to find the situation confusing, and the key issue in this confusion concerned the appropriate basis for regulation. "Cost of service" was challenged on the grounds that cost could not be ascertained. Since gas is produced jointly with oil and other petroleum products, joint costs have to be allocated, and some of the usual procedures for doing this were held to involve circular reasoning. Besides, the cost-of-service principle, narrowly interpreted, would have placed only a nominal value on the underground stockpile of gas, based on exploration and development costs alone. This was held to be inconsistent with accepted notions of fair value and fair return, and support for this view seemed to be established in national policy by the percentage depletion allowances. These had been granted as subsidies for exploration but were, in effect, a recognition of the industry's right to profit by the "unearned increment" in its oil and gas reserves.

Supplementary issues concerned the extent of competition between producers, the expected life of reserves, the possibility of stimulating exploration through higher prices, relations to competing fuels, and the preferences of various classes of consumers. All these had implications for price policy, but nobody knew enough about the short-term and long-term elasticities of supply and demand to make an adequate analysis of the effects of proposed policies.

Recently the FPC issued a report by its chief economist, Harold Wein, which throws much light on these issues. Prominent among its findings is an interesting paradox, namely, that low prices rather than high prices tend to result in larger reserve supplies of gas. The reason for this is that exploration leading to new discoveries is not greatly influenced by price but is responsive to the rate of consumption; so the influence of higher prices in restricting demand reacts adversely on exploration, thus also restricting supply.

Estimates of potential supplies are much greater now than they were in the early postwar years. "In 1950 the estimate of gas remaining to be discovered was about 350 trillion cubic feet and in 1957 it had grown to 1,000 trillion." Other experts today put it in the range of 1,200-1,500 trillion, or in the order of 100 years' supply at the recent rate of production. Furthermore, it is believed that these supplies are readily subject to command through drilling, since the ratios of success for exploratory wells has consistently remained high.

The inducement to exploration, however, depends more on oil than on gas. Since the expansion of capacity has been artificially held high, as noted here last month, it is not surprising that gas surpluses may again develop.

The Demand for Gas

On the demand side, there are both elastic and inelastic elements. Consumer demand is highly inelastic. Once a household has installed gas-burning equipment, most of which operates automatically, a large relative price advance would be necessary to justify use of any alternative fuel. The FPC study found that residential-commercial demand has an elasticity of -.8 and residen-

(Continued on page 8)

INSURING AGAINST ILLNESS AND ACCIDENTS

Large and often unexpected costs of medical care, which sometimes trigger financial disaster even in well-managed households, no longer have such adverse consequences for most American families. Today, the majority of Americans are able to meet the expenses of sickness and injuries because of the widespread utilization of health and accident insurance.

In 1941, only 16 million persons — or about 12 percent of the nation's population — were protected by some form of health and accident insurance. Since that time, voluntary health insurance has expanded faster than any other form of insurance. Last year, more than 140 million persons were covered, an all-time high comprising 75 percent of the civilian population.

The upsurge in health insurance results from a number of influences. Among the more significant of these have been the greater public awareness of the usefulness of such protection, the introduction of more diversified plans and policies to fit a greater variety of needs, the fast-rising popularity of "tailor-made" group programs, the increase in family income, and the steady national population expansion.

The Business Today

More than 1,800 organizations, many operating on a regional and national basis, issue some form of health and accident insurance. Basically, these organizations are made up of two principal types of insurers: commercial insurance companies and nonprofit associations.

The larger of the two groups, commercial insurers, provided protection in 1961 for about three-fifths of the nation's insured and accounted for about the same proportion of the total \$8.3 billion in premiums. Nearly three-fourths of the 840 commercial insurers also write life insurance and another one-fifth are casualty firms.

In addition to the commercial segment, there are in the nation 77 Blue Cross plans, 69 Blue Shield plans, and more than 800 independent health insurance plans sponsored mainly by industrial, community, private clinic, and college health associations. Although the predominant form of coverage offered by nonprofit groups is in-hospital care and surgery, a small number of these organizations emphasize areas of special protection, for example, against the expenses of care related to eyes and teeth.

In all, more than \$6.4 billion of the nation's health bill came from health and accident insurance in 1961, with nearly 90 percent of total insurance benefits going to persons insured under group policies. About 52 percent of total benefits were paid by commercial insurers.

Benefits for health insurance are usually paid in two main ways — through either "indemnity" or "service" arrangements. In general, commercial writers customarily utilize cash indemnities, that is, stipulated amounts to the insured persons for services specified by the policy. The other method is used by most hospital-medical plans, such as Blue Cross-Blue Shield, which provide full payment directly to the hospital or physician for services covered;

these plans often carry certain requirements and limitations relating to duration of care and treatment, type of accommodations, and necessity for physician-hospital cooperation.

Types of Insurance

Expenses for illness and injury may be insured against by a variety of plans. Actually, most insured persons carry policies covering more than one type of medical care expense. The most popular type of protection is hospital expense insurance. This form, which has been increasingly accompanied by the additional protection against surgery costs, pays all or part of hospital room and board and other facility charges. Altogether, hospital care insurance was held by more than 137 million Americans in 1961, more than nine-tenths of them also carrying surgical expense policies.

General (or regular) medical expense insurance is the third most widely utilized health care plan. Although designed mainly to pay for physicians' visits, the insurance often covers related expenses, such as X-ray and laboratory tests.

Loss-of-income protection furnishes weekly or monthly income protection to nearly 45 million workers during periods of disability resulting from illness and accident.

Introduced in 1951, major medical expense insurance has been one of the fastest growing forms of health protection. It insures against costs incurred from severe and prolonged injuries and illnesses, and is most frequently used as a supplement to basic medical care plans.

Insurance in Illinois

Illinoisans are heavy users of health insurance. In contrast to the national average of 75 percent, about 84 percent of the state's approximately 10 million citizens owned some form of such insurance in 1961. As in many heavily populated states, the high coverage in Illinois results from the large proportion of group policies in industrial areas.

More than 50 insurance companies, 6 Blue Cross-Blue Shield plans, and 44 independent groups are headquartered in about 15 Illinois cities. Additionally, there are approximately 275 out-of-state companies licensed to sell health insurance here. Together, these organizations received more than \$520 million in premiums in 1960, with about 73 percent going to commercial insurance firms.

Largest insurer in terms of business done within the State is the nonprofit Blue Cross plan of Chicago, which last year served about 2 million subscribers.

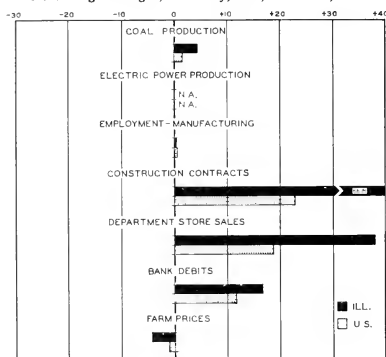
The six leading Illinois commercial insurance companies — each having annual sales within the State worth more than \$3 million — are Bankers Life and Casualty, Continental Assurance, Benefit Association of Railway Employees, Constitution Life, The North American Company for Life, Accident, and Health Insurance, United Insurance of America, all of Chicago; and Washington National, of Evanston.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, February, 1963, to March, 1963



* Not seasonally adjusted. n.a. Not available.

ILLINOIS BUSINESS INDEXES

Item	Mar. 1963 (1957-59 = 100)	Percentage change from Feb. 1963	Mar. 1962
Electric power ¹	n.a.		
Coal production ²	111.6	+ 4.4	+ 4.9
Employment—manufacturing ³	n.a.	+ 0.1	+ 0.6
Weekly earnings—manufacturing ³	117.5 ^a	+ 0.7	+ 2.5
Dept. store sales in Chicago ⁴	119.0 ^b	+16.7	+ 6.2
Consumer prices in Chicago ⁵	105.2	+ 0.5	+ 0.7
Construction contracts ⁶	104.6	+66.8	-22.4
Bank debits ⁷	148.6	+16.7	+ 5.2
Farm prices ⁸	93.0	- 4.1	- 4.1
Life insurance sales (ordinary) ⁹	125.5	+11.1	+ 2.0
Petroleum production ¹⁰	98.6	+11.5	- 6.6

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agency, Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	Mar. 1963	Percentage change from Feb. 1963	Mar. 1962
Annual rate in billion \$			
Personal income ¹	452.7 ^a	+ 0.4	+ 4.0
Manufacturing ¹			
Sales.....	411.6 ^a	+ 0.6	+ 3.3
Inventories.....	57.8 ^{a, b}	+ 0.2	+ 2.1
New construction activity ¹			
Private residential.....	20.8	+ 9.9	+ 6.4
Private nonresidential.....	16.8	+ 2.3	+ 2.8
Total public.....	14.3	+12.3	+ 4.3
Foreign trade ¹			
Merchandise exports.....	25.3 ^c	+108.2	+18.6
Merchandise imports.....	16.7 ^c	+24.4	+13.6
Excess of exports.....	8.6 ^c	+676.7	+29.5
Consumer credit outstanding ²			
Total credit.....	62.3 ^b	+ 0.1	+10.7
Instalment credit.....	48.2 ^b	+ 0.3	+11.5
Business loans ²	40.8 ^b	+ 2.2	+ 8.2
Cash farm income ³	29.1 ^c	-28.2	+ 0.4
Indexes (1957-59 = 100)			
Industrial production ²			
Combined index.....	120 ^a	+ 0.8	+ 2.9
Durable manufactures.....	121 ^a	+ 1.0	+ 3.5
Nondurable manufactures.....	121 ^a	+ 0.7	+ 2.3
Minerals.....	105 ^a	+ 1.1	+ 0.2
Manufacturing employment ⁴			
Production workers.....	98 ^a	+ 0.7	- 0.1
Factory worker earnings ⁴			
Average hours worked.....	101	+ 0.3	- 0.5
Average hourly earnings.....	114	+ 0.4	+ 2.5
Average weekly earnings.....	115	+ 0.7	+ 2.0
Construction contracts ⁵	125	+22.8	-10.1
Department store sales ²	120 ^a	+ 5.3	+ 2.6
Consumer price index ⁶	106	+ 0.1	+ 1.1
Wholesale prices ⁴			
All commodities.....	100	- 0.3	- 0.8
Farm products.....	95	- 1.1	- 3.0
Foods.....	99	- 1.4	- 2.5
Other.....	101	0.0	- 0.2
Farm prices ³			
Received by farmers.....	99	- 1.0	- 2.0
Paid by farmers.....	106	0.0	+ 2.0
Parity ratio.....	77 ^d	- 1.3	- 3.7

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ⁶ Seasonally adjusted. ^a End of month. ^b Data for February, 1963, compared with January, 1963, and February, 1962. ^c Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1963					1962
	Apr. 27	Apr. 20	Apr. 13	Apr. 6	Mar. 30	Apr. 28
Production:						
Bituminous coal (daily avg.).....	thous. of short tons.. 1,521	1,501	1,500	1,410	1,468	1,427
Electric power by utilities.....	mil. of kw-hr. 16,495	16,191	16,325	16,418	16,425	15,054
Motor vehicles (weekly).....	number in thous. 184	186	180	191	189	180
Petroleum (daily avg.).....	thous. bbl. 7,493	7,468	7,461	7,484	7,478	7,345
Steel.....	1957-59 = 100.. 136.8	135.3	132.3	129.5	128.1	105.0
Freight carloadings.....	thous. of cars. 577	561	556	546	559	578
Department store sales.....	1957-59 = 100.. 113	104	121	120	113	110
Commodity prices, wholesale:						
All commodities.....	1957-59 = 100.. 99.8	99.9	99.9	100.0	99.9	100.4 ^a
Other than farm products and foods.....	100.5	100.5	100.5	100.6	100.6	100.9 ^a
22 commodities.....	1957-59 = 100.. 93.4	93.3	92.9	92.4	92.1	95.1
Finance:						
Business loans.....	mil. of dol. 35,036	35,258	35,274	35,256	35,208	32,778
Failures, industrial and commercial.....	number. 312	255	274	360	329	335

Source: Survey of Current Business, Weekly Supplements.

^a Monthly index for April, 1962.

RECENT ECONOMIC CHANGES

Corporate Profits Up

Corporate profits in the closing quarter of 1962 rose to a record annual rate of \$54 billion. This represented an increase of \$3 billion over the third quarter, and surpassed the previous high reached in the second quarter of 1959.

For the entire year 1962, profits before taxes, excluding inventory gains and losses due to price changes, totaled \$51.4 billion, \$6 billion above 1961 and more than \$4 billion greater than the previous record established in 1959. Taxes took nearly half of total corporate profits, leaving after-tax income at \$26.3 billion, compared with \$23.3 billion in 1961 and \$23.0 billion in 1960.

Corporate earnings relative to corporate gross product remained fairly constant during the year at about 15.7 percent except for the final quarter of the year when the proportion reached 16.3 percent. This pattern of either constant or increasing earnings relative to corporate gross product has prevailed since the end of the first quarter of 1961, which marked the low of the most recent recession.

Steel's Competitive Position

Since the turn of the century, annual production of steel in the United States has risen from just over 11 million tons to a high of 117 million tons and during the last decade has averaged about 100 million tons. This growth in steel production has been a result of the expanding population, the development of steel as a competitor with other products, and the emergence of entirely new industries such as the automotive and appliance industries.

However, during recent years there has been considerable growth in the markets for materials which can be used as alternatives to steel, such as plastics, aluminum,

and cement. According to the American Iron and Steel Institute nearly 2 million tons per year in steel production have been lost to other materials during the last five years.

In addition to this increased competition domestically the United States' share of world steel production has declined from 46 percent in 1950 to only 25 percent in 1961. This decrease in the nation's percentage of world production contrasts with the growth experienced during the first 30 years of this century to a level of 59 percent in 1920, as indicated in the accompanying chart. Since the end of World War II, foreign countries, particularly those in Europe, have rebuilt or replaced old mills with new and modernized facilities, thus increasing the competition between this and other countries.

Gross National Product

The nation's output of goods and services rose to a seasonally adjusted annual rate of \$572 billion in the first quarter of 1963, an all-time high, according to a preliminary estimate by the Council of Economic Advisers. The gain of \$8.5 billion over the previous quarter was \$300 million greater than the advance recorded in the fourth quarter of 1962, and continued the expansion of the nation's output from the last recession low of \$501 billion recorded in the first quarter of 1961.

GROSS NATIONAL PRODUCT OR EXPENDITURE (Seasonally adjusted, billions of dollars at annual rates)

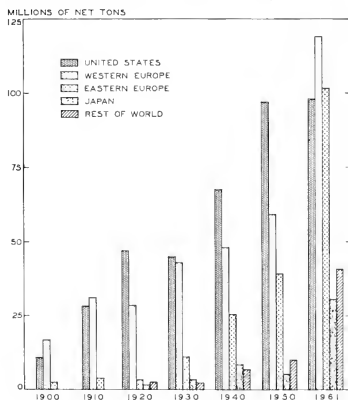
	1st Qtr.* 1963	4th Qtr. 1962	1st. Qtr. 1962
Gross national product	572.0	563.5	545.0
Personal consumption	369.0	363.5	350.2
Durable goods	50.2	49.6	46.3
Nondurable goods	166.7	163.9	159.9
Services	152.1	150.4	144.1
Domestic investment	76.0	76.2	75.9
New construction	43.5	45.0	41.6
Producers' durable equipment	30.0	29.9	27.6
Change in business inventories	2.5	1.2	6.7
Nonfarm inventories only	2.2	1.1	6.6
Net exports of goods and services	3.2	3.2	3.7
Government purchases	123.8	120.7	115.2

INCOME AND SAVINGS

National income	n.a.	466.6	448.9
Personal income	452.1	448.0	432.0
Disposable personal income	392.7	389.3	375.6
Personal saving	23.7	25.8	25.4

* Preliminary estimate by Council of Economic Advisers.
Source: U. S. Department of Commerce.

WORLD STEEL PRODUCTION, MAJOR AREAS



Source: American Iron and Steel Institute, *Foreign Trade Trends*, p. 16.

During the first quarter of this year personal consumption continued its upward movement as all three of its components increased over the previous quarter. Private investment meanwhile continued its gradual decline from the record high of \$77.4 billion reached during the second quarter of last year, as new construction reached its lowest point in a year and as inventory accumulation also fell \$4.2 billion from a year ago. Government purchases of goods and services advanced during the first quarter to an annual rate of \$123.8 billion as the defense and space programs were accelerated.

However, even with a rise in the annual rate of disposable income of \$3.4 billion to \$392.7 billion, personal saving fell \$2.5 billion and the rate of saving fell to 6 percent of disposable personal income. This was the lowest total and rate recorded for savings since the fourth quarter of 1960 and reflects an increased use of credit in financing consumption outlays.

LABOR COSTS AND INTERNATIONAL TRADE

MELVIN ROTHBAUM, Associate Professor
of Labor and Industrial Relations

With the passage of the Trade Expansion Act in October of 1962, the United States made one of the most far-reaching commitments to freer and more extensive foreign trade in its history. Equally significant, the act received widespread support, including most of the major economic interest groups in the country.

One expected consequence of this commitment is the acceptance of greater exposure of American industry to foreign competition. Administratively, this change has already become apparent in the decisions of the Tariff Commission. Not only has the commission denied all six claims of injury from foreign competition that have arisen since last October, but also its decisions have been unanimous. This unusual unanimity among the commission's members reflects the much more stringent standards for protection embodied in the Trade Expansion Act.

To the extent that the goals of the act are realized, one can expect an increasing interest in comparative studies of production costs here and abroad. Unfortunately the number, scope, and quality of such studies have been hampered by the lack of sufficient data. As a result, many of the analyses have been limited to national indicators of wages, prices, and productivity. As the techniques of compiling these indicators become more sophisticated and standardized, such studies permit the analysis of competitiveness in very broad terms. However, they necessarily abstract from individual industry experience.

Even where industry data designed for comparative cost purposes are being collected, the analyst must often deal with relatively broad industry definitions encompassing diverse product lines. Large statistical samples specialized by product line and limited to firms selling abroad or competing with imported products are not only very costly, but the data are likely to be considered confidential by the firms involved.

Despite these difficulties, existing studies do indicate (in an approximate way) the competitive cost relationships in the United States and abroad, especially in European countries. In general, American firms benefit from advantages in costs of materials and parts and suffer from disadvantages in costs of labor. Our manufacturing unit costs tend to be more competitive than our total unit costs, mainly because of higher American selling and distribution costs and, in some cases, because of higher administrative costs. We have greatest difficulty competing with the developed economies of Western Europe and Japan. Vis-à-vis the underdeveloped economies, we maintain substantial advantages in regard to technology, scale of output, and labor productivity.

Many cost differences cannot be described statistically although they may be of great importance. Larger scale of output often provides an advantage to American firms even in competition with advanced countries. The quality of management may be a decisive factor, as may the development of new products that have no direct counterpart in foreign countries. In all the long list of actual or potential advantages and disadvantages, labor costs appear to be the most important negative factor for American firms. As such, they deserve special emphasis. In the following sections, we shall explore the size and nature of the labor cost differential, trends in recent years, and some special aspects of comparative labor cost by industry and by type of employee.

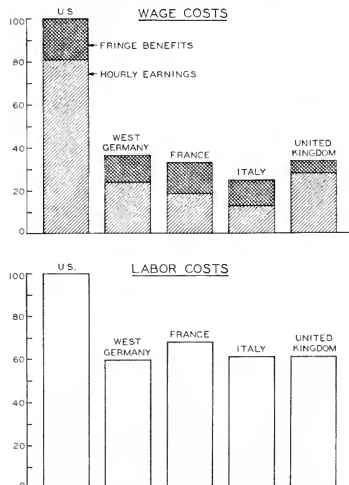
Wages and Labor Costs

Even a superficial familiarity with national wage and labor cost comparisons reveals some fairly consistent relationships. First, there is an extremely wide gap between hourly earnings here and abroad. Second, the difference between employment costs and hourly earnings tends to be substantial, particularly because of fringe benefit payments. And third, foreign advantages in employment costs are not likely to be translated proportionately into labor cost advantages because of productivity differences.

The Common Market countries and the United Kingdom provide the most comparable data on hourly earnings. These range from the United Kingdom, with earnings slightly more than one-third of those in the United States, to Italy, where the earnings level is about one-seventh of ours. While other comparisons present greater difficulties, Sweden (the highest-wage country in Europe) appears to have earnings a little above 40 percent of American earnings. Japan, on the other hand, falls a bit below the Italian level. Without pushing the statistical accuracy of these comparisons too far, the significance of the earnings differential is, nevertheless, obvious. (See upper part of accompanying chart.)

The addition of fringe benefits takes us a step closer

FOREIGN WAGE AND LABOR COSTS
AS PERCENTAGE OF U.S. COSTS



Sources: French National Institute of Statistics and Economic Studies, U.S. Bureau of Labor Statistics, and the American Assembly.

to employment costs. Since firms abroad commonly have higher fringe benefits in relation to earnings than American firms, the addition of fringe benefits tends to narrow the gap. Thus Germany rises from a little more than one-fourth of our level to over one-third. Italy, where the impact of fringes is most significant, rises from one-seventh to one-fourth.

This narrowing of the cost gap does not operate uniformly. Although both Sweden and the United Kingdom have more extensive welfare programs than the United States, a large share of the costs are paid from general taxes rather than direct employer contributions. As a result, employers in these countries have lower ratios of fringe benefit payments to earnings than in the United States and the gap, therefore, widens a little. The Japanese situation is so complex that it is hard to make even rough comparisons. There are difficulties in classifying some items as earnings or fringe benefits (e.g., semi-annual bonuses) and also of finding the actual cost of such items as housing and educational facilities. However, even substantial allowances for these benefits would leave Japanese firms at a very low wage-cost level.

Because of the lack of statistical data, the movement from wage costs to employment costs can be approached only indirectly. One aspect of the problem is how to abstract from differences in employment costs that are due mainly to differences in technology. Fortunately a 1960 Conference Board study examined the number of workers needed and the labor time required per unit of output for plants here and abroad using similar equipment and producing the same product. Although the majority of plants abroad tended to use both the same number of employees and labor time as here, the percentage using more of both far exceeded the percentage using less. Thus, in the Common Market countries, 26 percent of the plants used more employees as against 3 percent using less than here, and 42 percent used more labor time per unit of output against 2 percent using less.

Only a few comments by industry executives are available to explain these differences. The most important factor appears to be a less skilled and less trained work force, often because skilled workers are unavailable in the labor markets of full employment economies. In less developed countries, the general low level of education strongly affects the supply of skilled labor. In some cases, governmental restrictions that require employment of excess labor aggravates these problems.

As noted earlier, differences in productivity prevent wage cost differentials from being translated into equal differences in cost of labor per unit of output. The employment cost factors just discussed explain part of the difference between wage and labor costs. More important, however, are differences in the degree of mechanization of plants—usually because smaller markets abroad cannot support the same scale of production as in the United States. Very roughly, the productivity differences involved appear to cut the wage-cost advantage of Western Europe about in half, as shown by the lower part of the chart. In less developed countries, where both wages and productivity are lower than in Europe, an even greater share of the wage cost advantage is lost when productivity differences are taken into account.

Trends in Wages and Labor Costs

Comparing wage and labor cost trends over time poses fewer problems than comparisons of absolute levels. Here one simply asks whether a particular country's competitiveness is improving or worsening without trying to

determine the degree of competitiveness in the initial period. From this point of view, American experience in recent years has been relatively favorable.

As compared with a rise in hourly earnings of about one-third in the United States from 1953 to 1961, Western European earnings rose almost one-half in Italy and Belgium and came close to doubling in France. The relative difference between percentage earnings increases in the United States and most European countries appears to be even greater in 1962. The advance in Japanese earnings has also been substantially larger than the rise in American earnings since 1953.

Although the United States has failed to match the high productivity increases that have taken place in France and West Germany during recent years, it has exceeded the productivity rise in manufacturing in other European countries, particularly in the United Kingdom. Even in the first two countries, productivity increases have not been sufficient to counteract the high rate of wage increases. As a consequence, unit wage-cost increases have tended to exceed those in the United States. In Japan, on the other hand, higher rates of productivity have compensated for earnings increases and bettered their competitive position.

In short, the national indicators show that we have not fared badly in regard to competitive wage costs vis-à-vis Europe in recent years, although the French comparison seriously overestimates our gains because of exchange rate devaluation. The major factor in our favor has been wage increases generated by tight labor markets. While labor shortages are likely to continue in Western Europe, their impact may well depend on the degree to which effective policies toward controlling the rise in income are put into effect. A slackening of the wage trends plus high rates of productivity increase could easily reverse the recent experience.

Industry and Employee Comparisons

The national comparisons above necessarily conceal differences by industry and by product. With only rare exceptions, information by firm or by product line is not available to the outside investigator. Therefore, the following analysis will concentrate on some of the patterns that arise at the industry level.

In large degree, the extent to which industry rather than national factors dominate wage and cost comparisons is a function of the differences in the level of economic development of the countries being studied. Where these differences are large, national characteristics become more significant. Thus underdeveloped countries, with their low per capita incomes and low levels of capital investment, tend to have low productivity in a wide range of industries. They cannot draw upon an educated and skilled labor force; or upon extensive transportation, communications, and power networks; or upon an ancillary industrial network to provide high-quality products at reasonable cost. Thus comparisons between the United States and Latin America tend to emphasize cost differences that are applicable to many industries.

On the other hand, EEC studies of the Common Market and the United Kingdom (where economic differences are much narrower) emphasize the importance of the individual industry. Wage differences for a particular industry among European countries tend to be smaller than wage differences among industries within a single country. The technological and market forces of the particular industry overshadow the impact of the national economy. In the case of Europe, therefore, com-

petitive advantages and disadvantages based on national indicators may narrow drastically when one descends to the industry level.

A related problem concerns the "out-of-line" industry. Although Italy falls among the low-wage countries in Europe, the Italian automobile and rubber industries not only rank high in the Italian wage structure but also rank high for their particular industries in Europe as a whole. Similarly the cotton-spinning industry in the Netherlands, a generally low-wage country, ranks among the highest for that industry in Europe. Again this indicates the danger of depending on national averages. The ranges between the lowest-wage and highest-wage country by industry may vary considerably. For example, in Europe the range of wages is fairly narrow in the automobile and shipbuilding industries but wide in the cement, synthetic fibers, and the beer and malt industries. These variations reflect, among other things, differences within industries in technology, labor market conditions, and location within the country.

EEC studies of salaried workers suggest another problem in wage and cost comparison that may become of increasing importance in the future. As compared with other European countries, Italy has relatively low hourly wages but high salaries. West Germany's ranking, on the other hand, falls substantially when salaries rather than hourly wages are compared. Should these patterns persist, they may have some interesting implications for competitiveness over time. If technological changes result in radical shifts in the ratio of hourly to salaried workers, these shifts may change the present pattern of wage-cost differentials.

These wage and labor cost comparisons illustrate both the paucity of our knowledge in this area and the complexity of the problems. Probably the most that can be hoped for in the near future is more extensive standardization of industry data along the lines currently being pursued by the EEC and much greater development of industry productivity statistics. For national indicators will become increasingly less useful if economic disparities among major trading nations decrease over time.

The Price of Natural Gas

(Continued from page 2)

tial alone probably less than -1.5, so that the quantity used falls less than half as fast as the price rises.

This means that price increases can be loaded on the consumer without greatly affecting the quantity he uses. Specifically, the report showed that each increase of one cent in the wellhead price resulted in 1.5 cents being added to the consumer price; and, in addition, the inflation of costs and profits further along the line raised the price another 1.9 cents each year. Moreover, the distributing utilities now generally operate under "purchased gas" clauses, enabling them automatically to pass on any increase in prices charged by the pipelines.

Industrial demand, in contrast, is highly elastic. It is estimated at -2.5, which means that a 1 percent increase in price reduces the quantity used by 2.5 percent. The reason for this is that many utilities and large industrial users are equipped to burn more than one kind of fuel. If the price of gas goes up, they may shift to coal or fuel oil, whichever is cheaper, so that the quantity of gas consumed drops sharply. Since a decline affects all flows and profits back to the source, every effort is made to keep the price of gas competitive in industrial uses.

Not only were industrial prices lower at the beginning of the postwar period but the increases added on have also been smaller. The FPC analysis indicates that each increase of one cent in wellhead price resulted in 1.1 cents being added to the industrial price; and in addition, another .4 cent was added annually further along the line. These limited increases held the 1961 price of industrial gas to less than one-third of the consumer price. Objections to this policy were voiced principally by the coal producers, but their protests at the national level had little effect because the regulation of prices to different classes of consumers is under the jurisdiction of state regulatory agencies, mainly the utility commissions.

Is the Consumer Protected?

On the face of things, there is substantial discrimination against the consumer. He pays three times as much as the industrial user for the same gas moved largely through the same pipelines; his price was raised by twice as much—in fact, by more than the entire present price charged to industrial users. Since discrimination is prohibited by state laws, it is interesting to consider how these disparities are explained away.

The usual justification for this kind of price structure is that the industrial users have only the marginal use of the pipelines. One version of the argument is that they take gas at times when the consumer does not want it—off-peak or off-season—and therefore need not be charged for costs of facilities required to supply the consumer alone. This argument seems reasonable for an existing plant that cannot sell part of its output at the full rate. But it has little validity for a rapidly expanding industry that is building new facilities to supply the needs of both classes of users. In the case of gas, over 60 percent of total consumption is industrial, and plans for new facilities clearly contemplate supplying this dominant load.

To bolster the established theory of price fixing, the argument of "interruptible service" has been devised. This is supposed to demonstrate the marginal nature of industrial use, because no gas need be supplied these users when other users are taking the whole supply. The argument is carried over from the electric utility field, where it is more nearly applicable, because electricity is not storable whereas gas is. True, there actually are some minor interruptions of gas service, and these lend credibility to the idea; but this is like presenting a 90 percent fiction as the truth.

What we seem to have here is a situation in which every interest but the consumer's is served. Various industry branches, the FPC, and the state commissions have cooperated in bringing the price of gas up to the level of competing fuels. Perhaps, on a philosophical view, regulation could not very well have halted the trend short of that level—which merely raises the question whether all the regulatory proceedings were worth while in the first place.

What is more disturbing is that these processes do not necessarily work in reverse. If in the future, competition prevents increases in industrial prices, there will be efforts to load any cost increases even more heavily on the consumer. Also, if coal and fuel oil prices should continue to decline, the consumption of gas would fall and the price of gas also would be under pressure; but it is not at all clear that the consumer would then gain any of the benefit; he might even be asked to pay more to compensate for the loss of returns from industrial uses. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Unemployment of Young Persons

Unemployment, which has always been greater for young persons under 25 than for older workers, reached 33 percent in 1962. The reasons for this relatively high rate of unemployment are numerous. A very large proportion of the new entrants in the labor market are in this group. These young people frequently hold part-time jobs and tend to change jobs more often as they seek the "right" job. Finally young people tend to be more susceptible to layoffs because of inexperience and a lack of seniority.

Although the rate of unemployment is high among all young people, it is higher for those who dropped out of school before graduating than for high school graduates, as indicated in the chart. Rates of unemployment for both dropouts and graduates decline as they grow older and obtain more job experience, but many school dropouts are unable to overcome their disadvantages and continue to suffer. Those who dropped out of school in 1959 had a rate of unemployment in October, 1962, which was twice as high as that for the high school graduates of 1959. Altogether, 500,000 dropouts from 16 to 24 years of age were unemployed in October of 1962. This total accounted for about 50 percent of all persons of these ages who were unemployed and out of school, and for about 13 percent of all unemployed persons.

Even when they do find employment, school dropouts obtain much less desirable jobs than those held by high school graduates. In October, 1962, about 45 percent of all dropouts from 16 to 24 years of age were employed as laborers as compared with only 19 percent of those who had graduated from high school. Conversely, 41 per-

cent of the high school graduates were clerical workers as compared with only 11 percent of the dropouts.

State Government Finances

The general revenue of state governments rose 8.6 percent in 1962 to a record \$31.2 billion. This was 83 percent of all revenue received by state governments, the rest consisting of sales from state-operated liquor stores and investment earnings received by employee retirement, unemployment compensation, and other insurance trust systems.

Taxes accounted for 66 percent, charges and miscellaneous sources 10 percent, and intergovernmental revenue sources 24 percent. General sales and gross receipts taxes were the largest producers of tax revenue, yielding \$5.1 billion, or 25 percent of total state tax revenues in 1962, even though this kind of tax did not exist in 13 states. The next ranking source was individual and corporation income taxes, which reached \$4.0 billion.

During 1962 sales taxes on motor fuel continued their gradual increase, rising 6.8 percent over the previous year to \$3.7 billion. Other sales taxes on such items as tobacco and alcoholic beverages rose 5.6 percent to \$3.3 billion during 1962.

Transistor Market Growth

The transistor industry is ready to invade two fertile market areas: television and home appliances. Few industries have grown as rapidly as the transistor industry. There have been several reasons for this rapid growth which have enabled transistors to take over some of the communication, computer, and industrial markets, according to *Business Week*. First is the attractiveness of the field to young scientists as a result of government support for research and the policy of cross-licensing of basic patents. Second, the markets for semiconductors were already well established and the transistors improved such products as computers and portable radios. Finally, the price dropped rapidly, making transistors more attractive from a cost standpoint.

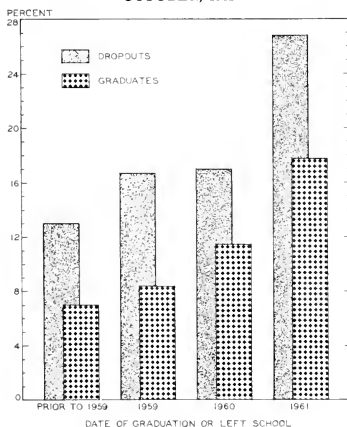
The latest development in transistors is the decreasing cost of producing the high reliability silicon transistor. This new type of transistor has been gradually displacing the germanium transistor.

Government Employment and Payrolls Rise

There were 9.4 million civilian public employees at the end of October, 1962, 3.3 percent more than a year before. The rise was accounted for mainly by state and local governments, which increased their employment 300,000 to 6.9 million. At the same time, public payrolls reached \$4.0 billion, 11 percent above the level recorded a year earlier. Of this total, state and local governments accounted for \$2.6 billion, which represented the same percentage of the total public payroll as the year before.

Both the number of employees and the monthly payrolls have shown their greatest increases over the last decade at the state and local levels. During this period, employment of state and local governments (on a full-time equivalent basis) rose by 53 percent, whereas that of the federal government decreased 2 percent. Payrolls of state and local governments advanced 133 percent and those of the federal government increased 57 percent.

UNEMPLOYMENT RATES, HIGH SCHOOL GRADUATES AND DROPOUTS, OCTOBER, 1962



Source: U.S. Department of Labor.

LOCAL ILLINOIS DEVELOPMENTS

Developments in Coal Production

In a report covering the past five years, the Illinois Department of Mines and Minerals indicates that while the number of coal mines in the State has been declining each year, coal output has continued to rise.

During 1962, 116 mines produced 48.4 million tons; in 1958, 169 mines had produced 43.8 million tons. There has also been a decline in employment, from 11,400 workers in 1958 to 8,800 in 1962. The average number of days worked per mine increased steadily, however.

In March, 1963, the output from 96 mines totaled 4.2 million tons, an increase of 5 percent over March, 1962. The highest production for March, 1963, was reported for St. Clair County, where 7 mines turned out 543,000 tons. Williamson County ranked second with an output of 503,000 tons from 16 mines. Fulton and Christian counties also produced about 500,000 tons each.

Three new mines are to start production soon; they are located near the towns of Benton, Hillsboro, and Percy. The state's productive capacity will be increased by 4 million tons, and jobs for 700 persons will be provided by these new mines.

Regional Income in Illinois

In 1960, Illinois per capita income averaged \$2,613, a figure higher than that of any other Midwestern state and 18 percent above the United States average.

In northern Illinois per capita incomes were generally higher than in other parts of the State. The average for the Chicago area was \$2,800. Regions surrounding the larger downstate urban centers—Rockford, Rock Island, Peoria, Springfield, and Champaign-Urbana—had averages ranging from \$2,000 to \$2,200. In the Quincy,

Mattoon, East St. Louis, and extreme southern areas, per capita incomes ranged from \$1,400 to \$1,800.

Regional income differences are chiefly explained by three factors. First, there is a direct relationship between the per capita income of an area and the proportion of its population in the labor force as well as actually employed. As young adults move to the cities to seek employment, the work force in rural areas is decreased and the cities have a larger proportion of the population in the labor force.

Second, regions whose economies are based on manufacturing, central office and warehousing activities, specialized services, and state and national governmental functions tend to have higher income levels. Predominant in lower-income areas are local trade and services, general farming, and local government.

Third, there are regional differences among earning levels of similar enterprises and occupations. For example, in 1958 average annual earnings of manufacturing, trade, and construction were all above average in the Chicago area, but in the larger downstate metropolitan areas earnings in these industries that year were 80 to 100 percent of the state average, and in the less urbanized areas earnings were 60 to 75 percent of the state average.

Sales Taxes Increase

In 1962, Illinois purchasers paid \$511 million in sales taxes. According to the State Revenue Department, revenue to the State from the sales tax was \$501 million (the seller receives a discount of 2 percent).

Because the sales tax rate increased from 3 to 3.5 percent, a direct comparison with 1961 figures cannot be made. However, 1962 sales of taxable items exceeded 1961 sales by over \$1 billion. Moreover, 1962 collections came from 160,517 retailers and wholesalers, as compared with 150,648 in 1961.

The largest amount of revenue in 1962—\$104.5 million—was derived from food sales. Receipts from other kinds of businesses were automotive and filling stations, \$98.7 million; general merchandise, \$61.4 million; lumber and building hardware, \$44.9 million; drinking and eating places, \$44.0 million; manufacturers, \$33.4 million; apparel, \$25.6 million; furniture, household goods, and radio stores, \$18.3 million; and miscellaneous, \$70 million.

Tollway Revenue Increases

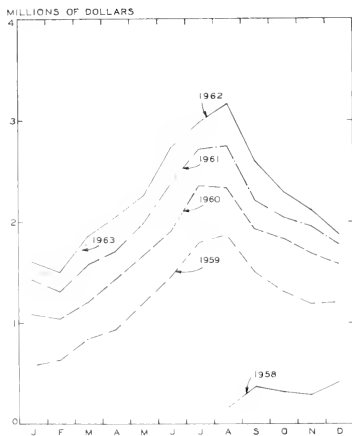
Revenue of the Illinois Tollway during its fourth full year of operation was equal to 187 percent of its first year's revenue. According to the Illinois State Toll Highway Commission, this rate of growth has been greater than that of any other major tollroad in the nation.

Gross revenues for 1962 totaled \$28.8 million, 14 percent over 1961. Net operating revenues of \$21.7 million represented an increase of 17 percent and an earning of 126 percent of the annual interest charge of \$17.2 million on the outstanding bond obligation of \$41.3 million.

The commission estimated at the beginning of this year that 1963 and 1964 net revenues will accumulate sufficient funds to satisfy interest and reserve requirements (\$43 million) and thus permit the first payments into the sinking fund for the retirement of bonds in 1965.

Gross revenues for the first four months of 1963 declined 3.8 percent from the \$7 million for the same period of 1962. This was a result of loss of traffic to free roads recently opened in the area. Adjusted toll revenues through March, 1963, are shown on the chart.

ILLINOIS TOLLWAY REVENUES



Source: Illinois State Toll Highway Commission.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1963

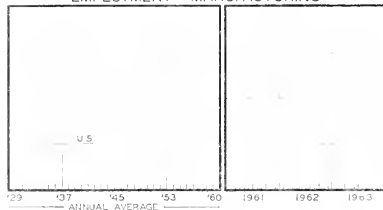
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
	Feb., 1963	\$34,937 ^a	1,469,600 ^a	\$561,842 ^a		\$24,708 ^a	\$20,144 ^a
Percentage change from	Mar., 1962	+29.5 -4.8	-1.0 +4.7	-6.7 +6.5	+38 +3	+16.7 +5.2	+8.6 +14.0
NORTHERN ILLINOIS							
Chicago							
	Feb., 1963	\$24,200	1,077,737	\$407,450		\$23,092	\$17,339
Percentage change from	Mar., 1962	+62.3 -1.1	-0.2 +4.0	-7.2 +6.2	+36 +2	+17.2 +5.6	+9.5 +13.8
Aurora							
	Feb., 1963	\$ 890	n.a.	\$ 9,296		\$ 94	\$ 193
Percentage change from	Mar., 1962	-15.5 -51.1		-4.8 +6.2	n.a.	+22.1 +5.3	+8.7 +19.2
Elgin							
	Feb., 1963	\$ 530	n.a.	\$ 6,329		\$ 54	\$ 148
Percentage change from	Mar., 1962	+142.8 -27.9		-7.2 +6.4	n.a.	+14.3 0.0	-4.4 +6.9
Joliet							
	Feb., 1963	\$ 1,095	n.a.	\$10,926		\$ 98	\$ 135
Percentage change from	Mar., 1962	+84.0 +132.9		-4.6 +6.7	+46 -3	+13.4 -7.4	-3.0 +10.5
Kankakee							
	Feb., 1963	\$ 709	n.a.	\$ 5,129		n.a.	\$ 82
Percentage change from	Mar., 1962	+1,487.2 +159.8		-7.4 +6.7	n.a.		+5.7 -0.5
Rock Island-Moline							
	Feb., 1963	\$ 1,559	33,220	\$11,410		\$ 136 ^b	\$ 235
Percentage change from	Mar., 1962	+417.1 -34.7	-1.0 +9.5	-5.8 +11.4	n.a.	+15.5 +11.1	+8.8 +10.5
Rockford							
	Feb., 1963	\$ 1,239	66,704 ^c	\$19,769		\$ 221	\$ 341
Percentage change from	Mar., 1962	+24.7 +3.4	+0.9 +9.2	-6.9 +9.9	+35 ^c -1 ^c	+13.7 -2.5	+11.4 +24.6
CENTRAL ILLINOIS							
Bloomington							
	Feb., 1963	\$ 350	14,648	\$ 6,196		\$ 98	\$ 171
Percentage change from	Mar., 1962	+138.1 -22.2	-6.4 +10.2	-4.3 +8.4	n.a.	+12.8 +1.0	+22.4 +9.3
Champaign-Urbana							
	Feb., 1963	\$ 643	19,616	\$ 9,314		\$ 91	\$ 170
Percentage change from	Mar., 1962	+1,171.0 +2.2	-2.5 +11.0	-3.6 +6.6	n.a.	-0.1 +0.2	+3.4 +20.3
Danville							
	Feb., 1963	\$ 410	19,676	\$ 5,828		\$ 55	\$ 96
Percentage change from	Mar., 1962	+451.4 +20.7	-9.7 +8.5	-11.3 +4.0	+42 +5	+7.2 +2.7	+8.7 +23.7
Decatur							
	Feb., 1963	\$ 634	38,652	\$11,303		\$ 136	\$ 153
Percentage change from	Mar., 1962	+336.0 +9.2	-8.2 +4.2	-4.0 +3.7	+50 ^c +10 ^c	+10.8 +2.2	-0.6 +29.0
Galesburg							
	Feb., 1963	\$ 35	12,121	\$ 4,364		n.a.	\$ 52
Percentage change from	Mar., 1962	+438.8 -70.5	-3.1 +14.2	-5.4 +10.3	n.a.		-4.9 +2.4
Peoria							
	Feb., 1963	\$ 502	67,556 ^c	\$17,813		\$ 254	\$ 337
Percentage change from	Mar., 1962	-72.3 -42.5	-3.1 +5.9	+0.2 +8.4	+39 0	+7.3 -4.5	-6.0 +4.2
Quincy							
	Feb., 1963	\$ 129	15,451	\$ 5,069		\$ 56	\$ 94
Percentage change from	Mar., 1962	+70.7 -87.8	-1.6 +1.2	-3.1 +4.5	n.a.	+8.4 +1.7	+9.7 +21.0
Springfield							
	Feb., 1963	\$ 1,300	46,059	\$14,165		\$ 149	\$ 392
Percentage change from	Mar., 1962	-79.3 +10.5	-3.9 +2.5	-7.3 +8.9	+37 ^c +5 ^c	+6.2 +5.7	-0.6 +15.9
SOUTHERN ILLINOIS							
East St. Louis							
	Feb., 1963	\$ 46	17,097	\$ 7,669		\$ 125	\$ 91
Percentage change from	Mar., 1962	+12.4 -63.6	-4.8 -0.0	-7.0 +0.8	n.a.	+0.3 -7.7	+0.9 +19.9
Alton							
	Feb., 1963	\$ 188	26,644	\$ 4,874		\$ 50	\$ 49
Percentage change from	Mar., 1962	+105.8 +51.9	+4.6 +1.1	-3.3 +5.6	n.a.	+9.0 +7.1	+8.2 +18.1
Belleville							
	Feb., 1963	\$ 379	14,420	\$ 4,938		n.a.	\$ 67
Percentage change from	Mar., 1962	+308.5 +267.4	-7.5 +15.8	-6.1 +5.7	n.a.		-3.6 +24.9

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for February, 1963. Comparisons relate to January, 1963, and February, 1962. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending March 29, 1963, and March 30, 1962.

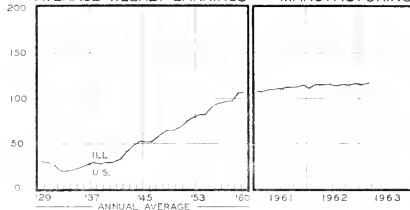
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

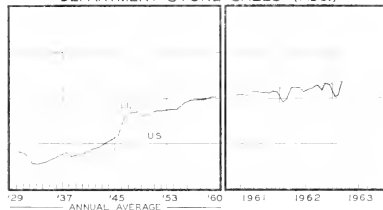
EMPLOYMENT - MANUFACTURING



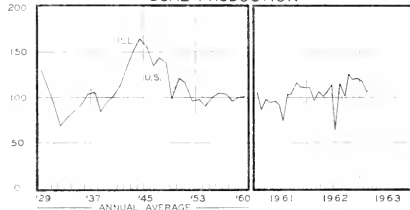
AVERAGE WEEKLY EARNINGS - MANUFACTURING



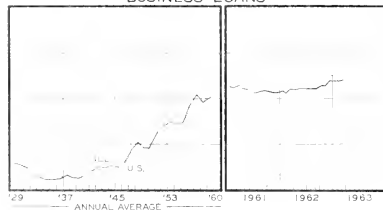
DEPARTMENT STORE SALES (ADJ.)



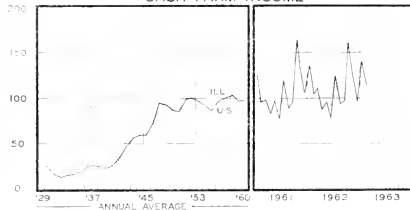
COAL PRODUCTION



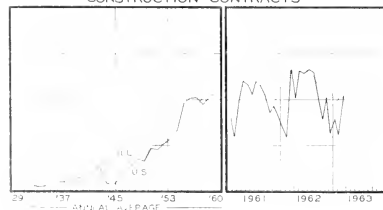
BUSINESS LOANS



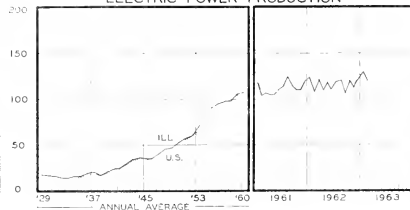
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 20

JUNE, 1963

NUMBER 6

HIGHLIGHTS OF BUSINESS IN MAY

May was another month of strength in the economy. The automotive industry produced more than 715,000 cars and the inevitable comparison was made—it was the highest May output since 1955. The steel industry was turning out more than 2.6 million tons of ingots per week during the second half of May but by the first of June the rate of production was beginning to flag as buyers completed inventory buildup and sat back to await the outcome of contract talks. The production of fuel and power did not change greatly from April. The FRB index of industrial production advanced to 124 (1957-59 = 100) after seasonal adjustment, another new record.

Capital Outlay Expectations Up Somewhat

The latest survey of anticipated outlays on plant and equipment for 1963 indicates that businessmen have raised their sights only slightly. Instead of the 4.8 percent increase over 1962 projected in March, such spending is now expected to be 5.2 percent higher and to reach a record \$39.2 billion. Actual expenditures in the first quarter fell somewhat below the March expectation, partly, it is thought, because of severe weather. The current estimates for the final three quarters of 1963 are \$38.5 billion, \$40 billion, and \$41.3 billion.

The nation's railroads plan the biggest percentage increase of any industry, according to the SEC and Department of Commerce, with a 27 percent advance over 1962. In the first-quarter survey, railroads expected their spending to be 13 percent greater. Durable goods manufacturers estimate that their outlays will reach \$7.7 billion, 10 percent over 1962. Public utilities and producers of nondurables plan 2 percent increases. Commercial and other businesses now project a 7 percent advance over 1962. The expectations of mining companies are unchanged—they still plan a 6 percent cut; and transportation firms other than railroads anticipate an 8 percent reduction from 1962 instead of the 11 percent of the March survey.

Change in Farm Support Program

A major shift occurred in the farm price support program on May 21 when wheat farmers voted strongly against the federal government's proposed coupling of prices and stringent production controls in 1964. To some degree, the negative vote reflected an expectation that the Administration and the Congress would feel impelled

to set up a different program more to the liking of the wheat growers. By mid-June, however, neither branch of the government seemed to be so disposed.

Under the program as it now stands, wheat farmers will receive a lower support price—\$1.25—for their 1964 crop if they accept acreage allotments. Those who do not accept acreage allotments will have to sell their crop on the open market. There is already a prospect that farmers will sharply increase planted acreage in an effort to offset the probable lower price, but such a move is likely to be self-defeating. Thus next year may well see a glut of cheap wheat.

Building Shows More Strength

New construction put in place in May was valued at an estimated \$5.5 billion, 15 percent higher than the month before and 3 percent above May, 1963. The expected seasonal gain between April and May is 11 percent. Both private and public building activity advanced strongly. Private construction, at \$3.9 billion, was up 13 percent, compared with the expected 10 percent.

Public construction was valued at \$1.6 billion; the gain of 20 percent over the month before was well above the normal seasonal increase of 13 percent.

Employment Picture No Better

The persistent lag in employment was evident again in May. The number of workers with jobs rose 954,000 to 69.1 million, a record for the month, but the increase was less than expected for the season. Unemployment was virtually unchanged at 4.1 million, whereas the normal seasonal expectation would be a decline. As a result of the less-than-seasonal improvement in employment and the lack of change in joblessness, the seasonally adjusted rate of unemployment rose slightly to 5.9 percent of the labor force.

The increase in the over-all rate of unemployment reflected the continued deterioration in the job market for young workers. The 1.2 million out-of-work teenagers now account for more than 25 percent of the unemployed; and their unemployment rate of 18 percent in May was the highest reached since 1949, when the BLS began to keep records of unemployment among teenaged workers. There is every prospect that this part of the employment problem will become increasingly serious.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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Sober Look at Auto Demand

Automobile sales have been soaring above all expectations. When the spurt started last October, there was some tendency to explain it away as the result of temporary factors. As it continued and grew, estimates of 1963 sales have continually been revised upwards, and the industry has continually added units to its production schedules. The spreading effects of this acceleration in output have been felt throughout the economy.

Commonly overlooked in current discussions is the fact that this most important industry is also one of the most erratic industries. Extreme surges and declines alike tend to be temporary. Experience provides no warrant for the optimism that regards what is happening as a "breakthrough" to still higher sales next year, and the year after, and so on indefinitely.

Behind the Current Upsurge

All of the important factors behind auto demand have proved favorable to strong sales this year. Most important of these was the steady advance in employment and consumer income over the two years since the recession lows of 1961. After that relatively low year, sales in 1962 were about in line with expectations. The strong employment and income trends therefore became increasingly favorable to some upgrading in the car stock.

Financing of purchases was made easier by the heavy flow of savings to financial institutions and the resulting competition for consumer instalment loans. The progressive easing of credit terms that had assisted car sales in earlier postwar years has now reached a new extreme. Reports indicate that cars are being sold on a 42-month repayment basis and in some cases even on a 48-month basis. Total consumer credit expanded at a seasonally adjusted annual rate of \$6.4 billion in April, and automobile paper accounted for more than half of this total.

The stock market recovery also contributed to purchases of new cars. Statistical tests show this to be a significant influence on demand, and the approach to the previous market peak has tended to stimulate the confidence of buyers, lenders, and sellers.

Nevertheless, when attention is taken of all these factors, they still do not explain entirely the high rate of sales recently achieved. A correlation analysis that has produced good results in most years places the estimate for 1963 new passenger car registrations at 6.8 million.

However, the adjusted annual rate of sales in April and May, including imports, was close to 8 million units, or over a million more than this estimate. Since it now seems unlikely that the year will average down to that level in the last half, 1963 is likely to duplicate 1955 in producing a large, not-wholly-explainable deviation over the expected total.

In the past, deviations like this do not persist for long, and year-to-year reversals largely explain the talk of a two-year cycle in auto demand. Although such a cycle is not well founded analytically, the reactions to extreme rates of sales do make for sharp changes from one year to the next. Furthermore, such reactions usually overcarry. From the adjusted third quarter high in 1955, sales dropped by over 2 million to the 1956 low. Even with some cushioning effect from a tax cut, a similar adjustment now might run to more than 20 percent of the peak rate by next spring.

An Inventory Boomlet

A longer-range view of the situation also results in indications of an annual rate of sales of about 7 million cars. Replacement demand has moved up sharply from the relatively low levels of the 1950's. Estimates indicate that this year's replacements may top 5 million units—approaching the average production of the early 1950's. The expected growth in the car stock, assuming that employment continues to grow steadily, is about 2 million cars per year, and adding this to 5 million replacement units results in a total not far from the above estimate based on the correlation approach.

Replacement demand, given prosperity conditions, should probably increase throughout the 1960's, ranging up toward the 6 million cars which were produced on the average during the late 1950's. The growth component, however, depends on employment: If employment should stop growing, there is no particular growth rate in the car stock that can be depended on; and if employment should fall, growth might cease, and, in fact, even replacement might be somewhat restricted for a while.

The significance of this lies in the fact that any cutbacks in autos to correct for the current excess of sales will slow the expansion of over-all production and employment. Moreover, autos are not the only factor in the current inventory boomlet. The steel industry, too, has been inflated by inventory buying, and it, too, is pretty sure to cut back somewhat in the months ahead. In addition, housing starts also have been temporarily pushed up to an unsustainable peak rate. So it seems quite likely that the current expansion will slow in the near future. With any such leveling in production, employment will tend even more quickly to come to a standstill, and this loss of support for growth will react on current demand.

The same conclusion may be reached by considering the role of credit. The present high rate of expansion of instalment debt holds a threat for future demand. Even if car sales remain at the peak, repayments will tend to catch up, and some of the stimulus of the credit expansion would be lost. But if car sales decline, new credit extensions may again fall below repayments, with a deflationary impact in excess of \$6.5 billion.

A sober look at the situation suggests, therefore, that the reputation of the auto industry for erratic fluctuations is again likely to be confirmed. Hardly any of the factors currently boosting sales to new record highs can be depended upon to prevent a substantial downward adjustment in the year ahead.

VLB

FARMING IN ILLINOIS

Agriculture is one of the largest and most basic of Illinois industries. A \$2.3 billion business, Illinois agriculture ranked fourth among the states last year in total output and was the largest of any state east of the Mississippi. In 1962, the state's productive farmlands accounted for more than 6 percent of the nation's total cash farm income (exclusive of government payments). Also, despite its inland location, Illinois is the nation's third-ranking state in agricultural exports, trailing only two seacoast states, California and Texas.

There were approximately 150,000 farms in the State last year, each averaging about 195 acres and having annual receipts of \$16,000. About two-fifths of these farms were operated by full owners (compared with three-fifths nationally), one-fourth by part owners, one-third by tenants, and the remainder by farm managers. Total farm population for the State is more than 500,000.

Farmlands nearly blanket Illinois. Almost 84 percent (or 30 million acres) of the state's total land surface is utilized by agriculture. Moreover, because so much of the land is flat, tillable, productive, and near marketing outlets, Illinois stands consistently among the top three states in total acreage harvested. Last year, crops were harvested on about two-thirds of the total Illinois farm area, with the remainder in pastures and woodlands.

Four Decades of Change

Since 1920, Illinois farms have increased by one-half in average acreage, but their numbers have declined by more than one-third. A key factor in this shift toward fewer but larger farms, both here and nationally, has been the increasing utilization of mechanical power. Today, nearly all Illinois farms employ machinery to some extent, compared with only an estimated 25 percent 40 years ago, when power was supplied mainly by horses and mules; last year, the horse-mule population had dropped below 74,000 from over a million in the early 1920's. Even greater strides toward mechanization of Illinois farms have been accomplished during the post-World War II era; these are reflected by an 84 percent increase in tractors and a 103 percent jump in motor trucks between 1946 and 1960. During the same period, the state's farm labor force was halved. In all, the productivity of the Illinois farm has more than doubled in the past 15 years.

Besides power, numerous advances in agricultural methods and practices have helped farmers increase productivity. For example, the widespread availability and low cost of fertilizers, the utilization of efficient herbicides and pesticides, and the development of better seed, as well as the greater reliance upon scientific assistance (as from soil testing stations), are among the many influences in the spectacular jump in crop yields. Also, farmer "know-how" in such matters as crop rotation, tillage, soil conservation, and irrigation has been a factor in increasing output. In addition, much progress has been made in livestock care, feeding, and breeding.

Crops in Illinois

A variety of field crops and livestock products are turned out in Illinois, but the state's agriculture is basically tied to four main commodities: cattle, hogs, corn, and soybeans. These products together accounted for more than three-fourths of total receipts during 1961.

Unlike many states in which farmers find it more profitable to specialize in either field crops or livestock, the farmer here is in the fortunate position of being able to obtain cash for his huge corn crop or to use it as a feed grain. Moreover, the extensive corn lands can easily be contracted if other crops suddenly rise in value. The fact that 90 percent of the corn is used as feed grain explains why cattle and hogs stand as the foremost commodities in the State; sales of these animals reached \$475 million and \$461 million, respectively, in 1961.

First among the state's cash crops is, of course, corn, nearly all of which today is hybrid compared with only 2 percent in 1936. In 1961, Illinois produced nearly one-fifth of the nation's 3.6 billion bushel crop.

Illinois leads the nation in the production of soybeans. Nearly one-fourth of the national yield came from Illinois in 1961; the record 159 million bushel crop brought Illinois farmers more than \$358 million during that year.

Other farm commodities grown here also rank fairly high nationally. For instance, the State in 1961 was third in popcorn production, sixth in wheat and broom-corn, eighth in hay and rye, eleventh in apples, and fourth in total acreage of vegetables for processing.

Types of Illinois Farming

Although one or more of the state's four main commodities are found on a predominant number of Illinois farms, diverse types of farming are pursued in different areas of the State because of variations in such factors as rainfall, length of growing season, soils, and location relative to market.

For example, one of the more distinct types of farming—livestock raising and feeding—is most extensive in counties west and north of the Illinois River. Large numbers of swine and cattle are produced there mainly as a means of marketing the region's heavy corn crop.

The emphasis on grain farming occurs mainly in the east central and south central sections of the State. There corn and soybeans are the outstanding cash crops, but numerous other grains, including wheat, rye, oats, and barley, are common.

Most prevalent in southern Illinois is mixed farming. The extreme southern portion of this section is chiefly a woodland and pasture area, its eastern edge grows livestock and grains, and the central part has a mixture of crops on residential and part time farms.

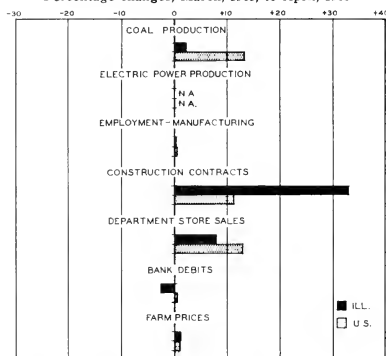
Both the northeastern and southwestern corners of the State are dotted with dairy and truck farms of varying sizes, which provide a fairly steady supply of fresh foods for the heavily populated area reaching from Chicago to Rockford and for the vicinity of St. Louis.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS¹

Percentage changes, March, 1963, to April, 1963



¹ Not seasonally adjusted. n.a. Not available.

ILLINOIS BUSINESS INDEXES

Item	Apr. (1957-59 =100)	Percentage change from	
		Mar. 1963	Apr. 1962
Electric power ¹	109.1	-10.0	-1.3
Coal production ²	114.0	+2.2	+11.6
Employment—manufacturing ³	97.6	+0.4	+0.5
Weekly earnings—manufacturing ⁴	117.0 ^a	-0.1	+2.0
Dept. store sales in Chicago ⁵	112.0 ^b	-5.9	0.0
Consumer prices in Chicago ⁶	105.0	-0.2	+0.2
Construction contracts ⁷	139.1	+33.0	+36.6
Bank debits ⁸	144.8	-2.6	+8.3
Farm prices ⁹	94.0	+1.1	-3.1
Life insurance sales (ordinary) ¹⁰	132.9	+5.9	+16.0
Petroleum production ¹¹	94.9	-3.7	-6.8

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agency, Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Apr. 1963	Percentage change from	
		Mar. 1963	Apr. 1962
	Annual rate in billion £		
Personal income ¹	455.8 ^a	+ 0.6	+ 4.0
Manufacturing ¹			
Sales	418.8 ^a	+ 1.7	+ 4.2
Inventories	58.2 ^{a, b}	+ 0.5	+ 2.6
New construction activity ¹			
Private residential	24.4	+17.9	+ 5.4
Private nonresidential	17.0	+ 1.7	+ 1.4
Total public	16.2	+ 9.6	+ 6.2
Foreign trade ¹			
Merchandise exports	25.5 ^a	+ 0.9	+15.2
Merchandise imports	17.6 ^a	+ 5.3	+ 5.9
Excess of exports	7.9 ^a	- 7.5	+42.8
Consumer credit outstanding ²			
Total credit	63.3 ^b	+ 1.6	+10.4
Installment credit	48.9 ^b	+ 1.4	+11.5
Business loans ²	40.8 ^b	+ 0.1	+ 8.0
Cash farm income ³	28.7 ^c	- 1.2	- 5.4
	Indexes (1957-59 = 100)		
Industrial production ³			
Combined index	122 ^a	+ 1.5	+ 4.0
Durable manufactures	123 ^a	+ 2.0	+ 4.0
Nondurable manufactures	123 ^a	+ 0.8	+ 4.3
Minerals	107 ^a	+ 2.0	+ 1.0
Manufacturing employment ⁴			
Production workers	100 ^a	+ 1.1	- 0.2
Factory worker earnings ⁴			
Average hours worked	100	- 0.7	- 1.2
Average hourly earnings	114	+ 0.4	+ 2.5
Average weekly earnings	115	- 0.3	+ 1.2
Construction contracts ⁵	138	+11.2	+ 3.2
Department store sales ⁵	116 ^a	- 2.5	+ 2.7
Consumer price index ⁶	106	0.0	+ 1.0
Wholesale prices ⁴			
All commodities	100	- 0.1	- 0.6
Farm products	95	0.0	- 1.5
Foods	99	+ 0.4	- 0.8
Other	100	- 0.2	- 0.5
Farm prices ³			
Received by farmers	100	+ 1.0	0.0
Paid by farmers	106	0.0	+ 1.0
Parity ratio	78 ^d	+ 1.3	- 1.3

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for March, 1963, compared with February, 1963, and March, 1962. ⁹ Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1963					1962
	May 25	May 18	May 11	May 4	Apr. 27	May 26
Production:						
Bituminous coal (daily avg.)	thous. of short tons.. 1,546	1,504	1,536	1,498	1,511	1,362
Electric power by utilities	mil. of kw-hr. 16,523	16,787	16,529	16,279	16,495	16,202
Motor vehicles (Wards)	number in thous. 177	192	201	195	186	180
Petroleum (daily avg.)	thous. bbl. 7,492	7,515	7,485	7,460	7,493	7,279
Steel	1957-59=100... 141.0	139.8	136.8	136.6	136.8	88.4
Freight carloadings	thous. of cars.. 598	601	599	591	577	580
Department store sales	1957-59=100... 107	110	127	113	113	106
Commodity prices, wholesale:						
All commodities	1957-59=100... 100.0	99.9	99.8	99.9	99.8	100.2 ^a
Other than farm products and foods	100.5	100.5	100.5	100.5	99.6	100.9 ^a
22 commodities	1957-59=100... 95.5	95.1	94.7	93.7	93.4	94.5
Finance:						
Business loans	mil. of dol. 35,267	35,433	35,232	35,337	35,036	32,978
Failures, industrial and commercial	number... 338	268	322	306	312	285

Source: Survey of Current Business, Weekly Supplements.

^a Monthly index for May, 1962.

RECENT ECONOMIC CHANGES

Wholesale Price Index Declines

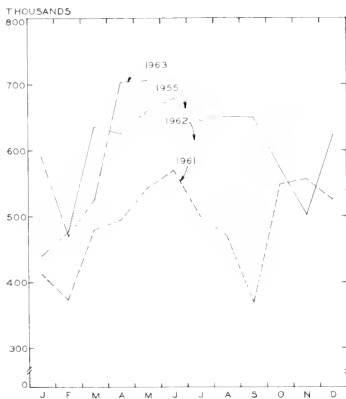
The wholesale price index fell 0.1 percent to 99.8 (1957-59 = 100) in April. This was 0.6 percent below the level recorded in April, 1962, and the lowest point since June, 1961. Seasonal declines in prices of heating fuels and manufactured animal feeds were the principal causes of a 0.2 percent decline in the industrial commodities index. Among other industrial commodities prices rose for some finished steel products, nonferrous scrap, and primary metals, but these increases were offset by declines for some items of farm equipment, electrical machinery and equipment, and motor vehicles.

The farm products index dropped 1.5 percent from the previous year as supplies of most livestock increased, sales of live poultry reached record levels, marketings of fruits and vegetables reached or approached seasonal highs, and an unusually large drop in egg prices occurred because of an unanticipated increase in egg production. Among processed foods price decreases for refined vegetable oils, poultry, and dairy products were largely offset by higher prices for refined sugar, canned and frozen vegetables, and packaged beverages.

Automobile Sales Up

Automobile production and sales surged ahead to record levels during the first five months of 1963. New passenger car sales for the month of May were 705,000, as indicated in the chart. This brought the five-month total to 3.1 million units, 9.2 percent ahead of the same months of 1955; the seasonally adjusted annual rate, however, was only slightly above the record 7.4 million cars sold in 1955. In addition, sales of trucks and commercial cars were running at an annual rate of 1.2 million, which would be 25.4 percent greater than 1962, the previous high year for these vehicles.

NEW MOTOR VEHICLES



Sources: U.S. Department of Commerce and Automobile Manufacturers Association.

Balance of Payments

The balance of international payments during the first quarter worsened slightly relative to that of the last quarter of 1962. The adverse balance, after seasonal adjustments, was \$820 million during the first quarter of the year, a rise of \$29 million from the fourth quarter of 1962 and about \$275 million from the average quarterly rate during 1962 as a whole.

The marked deterioration in the first quarter of 1963 was chiefly due to two factors. First, advance debt repayments or repurchases of debt obligations by foreign countries, which reached record levels during 1962, had returned to normal. Second, the large commitments of foreign funds for military purchases had also slackened considerably. These two types of transactions, which averaged about \$285 million per quarter in 1962, were only about \$40 million during the first quarter of this year. The first-quarter balance may also have been affected adversely by the dockworker strike in January. Merchandise exports, excluding military transactions but including shipments financed by the government through nonmilitary grants and loans or the acceptance of foreign currencies, were at a seasonally adjusted annual rate of about \$19.8 billion, approximately the same as in the fourth quarter of last year.

Motor Freight Tonnage Up

Intercity motor freight tonnage during the first quarter of 1963 was 1.1 percent higher than during the corresponding period of 1962, according to statistics issued by the American Trucking Association. Freight carriers in six of the nine geographical regions showed tonnage increases over the first quarter of 1962, ranging from 0.5 percent for motor carriers in the Central region to 5.2 percent for those located in the Northwestern region. Decreases were recorded in the New England and Middle Atlantic regions, where tonnages dropped 1.1 and 1.6 percent respectively.

Farm Labor Supply

At the end of April 6.4 million persons were working on farms. This was 13 percent more than a month earlier, but 3 percent less than at the corresponding time in 1962. To a large degree, the increase over the month of March was due to the sustained dry weather in the latter part of April which permitted long days of intense field work. However, many fields in the eastern half of the country were becoming so dry that planting of some crops was being postponed until moisture was received.

Family workers at the end of the month totaled 4.9 million persons, 3 percent less than a year earlier, and the number of hired workers reached 1.5 million, also down 3 percent from April, 1962.

Personal Income Rises

Personal income in April was at a seasonally adjusted annual rate of \$455.8 billion, \$2.5 billion higher than in March, according to the United States Department of Commerce. About 40 percent of the rise came from a \$1.1 billion increase in wages and salaries of manufacturing employees; most of this resulted from higher employment, as over-all hours worked per week and average hourly earnings showed little change on a seasonally

(Continued on page 8)

IMPLICATIONS OF THE COMMON MARKET FOR THE UNITED STATES

ROLAND W. BARTLETT, Professor of Agricultural Economics

From a long-run viewpoint, the economic integration of Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands into what is known as the European Common Market is one of the most important events since World War II. Growing pains are inevitable when such far-reaching changes take place within a given area and when these changes interact with the economic forces in other nations. In this article an attempt is made to set forth some of the long-run implications of the European Common Market as related to the economy of the United States. Some bases of comparison are shown in Table 1.

ECM Imports from U.S. Rise with GNP

On the basis of past evidence, it is probable that as the gross national product (GNP) of the Common Market countries increases, their total demand for United States products will increase. During the past decade the GNP growth rate in the Common Market countries was 5.3 percent annually, or a total increase of 43 percent from 1953 to 1961. In 1961, American exports to Common Market countries totaled \$3.6 billion, more than twice the volume in 1953 (\$1.6 billion). During this period the growth rate of imports of United States products into Common Market countries was faster than the GNP growth rate of these countries. A statistical study has shown that each 10 percent increase in the average GNP in Common Market countries from 1950 to 1959 was accompanied by a 16 percent increase in United States imports into these countries.

In analyzing these changes, certain facts should be kept in mind. Although our exports to the Common Market fell slightly in 1958 and 1959, the Common Market is now buying more of our products than when Marshall Plan funds were at their peak. This indicates the commercial demand for United States products to meet the needs of their rapidly expanding economies.

The full effect of external tariffs on products imported has not yet been felt. As the Common Market nears the 1970 date for completion of its economic integration, internal tariffs between the six member nations will go to zero, and all countries will apply the same external tariffs. These will particularly affect our agricultural products, which in 1961 were \$1.1 billion of the \$3.6 billion total exports to Common Market countries.

TABLE 1. COMPARISONS BETWEEN THE
COMMON MARKET, THE EUROPEAN
FREE TRADE AREA, AND THE U.S.

	Common Market	European Free Trade Area*	United States
Population, 1960 (millions) . . .	170.0	90.1	182.3
Gross national product 1960 (billions of dollars) . . .	180.9	109.9	504.4
GNP growth rate, 1951 to 1960 (percent) . . .	5.3	3.2	3.2
Industrial production growth rate, 1951 to 1960 (percent) . .	7.4	3.6	3.3

* Includes Austria, Denmark, Norway, Portugal, United Kingdom, Sweden, and Switzerland.

At this time, it is impossible to know how much effect the Trade Expansion Act of 1962 will have in increasing trade. The purpose of this act was to give the President power to negotiate lower tariffs on certain products in return for tariff reductions by the Common Market. The Treaty of Rome made definite provision for the lowering of Common Market tariffs when this would be advantageous. Recent reports indicate that their tariffs probably will be reduced for some United States products in return for lowered tariffs on Common Market products sold to us. Important decisions are expected to take place at the sixth or "Kennedy round" of negotiations, tentatively scheduled to begin in March, 1964.

Diverse Effects of ECM Policies

Keeping in mind that as the Common Market economy grows, its import requirements from the United States grow even faster, one must also remember that under new rules of business, some products will be helped, others will not be affected much one way or the other, and still other products will be hurt.

Of the total exports of \$2,359 million from the United States to the Common Market countries, 30.0 percent were manufactures and equipment; 24.6 percent were foods and tobacco; 20.5 percent were crude materials; 12.3 percent were chemicals; 7.8 percent were mineral fuels; and 4.3 percent were fats and oils.

The United States can still produce many products cheaper than Common Market countries. Concerning this, a recent study stated:

Experience shows that highly industrialized nations tend to exchange manufactured goods that are superficially the same. Steel comes in many thousands of shapes, sizes, and alloys. Machines are designed in such an infinite variety of models, styles, and specifications that it becomes virtually impossible for one country to produce all components best. For example, the U.S. both exports and imports textile machinery, electric motors and a very large number of other finished goods, component parts and accessories. (From *The New European Market*, the Chase Manhattan Bank, 1961, p. 25.)

Production and sales of tabulating machines exemplify the international nature of some products that are becoming increasingly important in a precision age. One United States company operating on an international basis sells eight different models of tabulating machines. Seven of the eight are produced in the United States and one, a highly complicated machine with a "memory," is produced in West Germany. The eight models are available for sale throughout the United States and Europe. In a recent year the volume of our exports of machines was about three times the volume of "memory" machines imported.

Furthermore, an outstanding characteristic of our economy has been its growing emphasis on research to improve products and reduce costs. A product which is off the world market today because it costs too much may be on tomorrow. Technical progress within the United States should continue to be rapid and exportable in coming years.

The demand for our raw materials is also likely to increase. Raw materials—including ores, textile fibers, nonmineral oils such as soybean oil, and raw chemicals—

are likely to be little affected by tariff changes in the Common Market. At present, about 25 percent of United States exports to these countries are in this category. Industrial growth in Common Market countries is likely to increase imports of these products from the United States.

In contrast, demand for machinery, electrical and transportation equipment, instruments, and finished chemicals is likely to decrease. Over 40 percent of all United States exports to the Common Market are machinery, transportation equipment, and finished chemicals. Because of the Common Market's increasing industrialization and the accompanying external tariffs, many of our producers will find European competition difficult to meet, and some products now successfully exported to Europe may cease to move there. Also, our manufacturers will meet increasing competition from Common Market countries in markets outside Europe. European countries must export goods in order to pay for imports of raw materials, and Common Market exports now exceed ours in total volume.

Demand for American-produced food is also likely to decrease. As stated, approximately 25 percent of our total exports to Common Market countries are food and tobacco. As it progresses, Common Market agricultural policy will extend national preference to their own producers. This, in turn, will stimulate competition among Common Market farmers and encourage more efficient production of food within this area. The combined effect of these two factors is likely to decrease imports. Increased demand by Common Market countries for soybeans and oil seeds, inedible tallow and fats, and cotton will not fully offset decreased demand for meats (including broilers), wheat, and vegetable oils and lard. While dependent upon many varying factors, our exports of feed grains to the Common Market probably will be maintained at the present volume until the end of the 1960's.

On balance, it appears probable that after the Common Market countries become fully integrated, the total of our food exports to these countries may be somewhat less than before they were economically integrated. On the more favorable side, as our industry is required to produce more goods for Common Market countries, increased payrolls to our industrial workers will tend to increase domestic demand for livestock and livestock products. Also, it is possible that some United States exports, such as feed grains, may be permitted on a permanent basis with zero or very low tariffs.

U.S. Investment in the ECM

The development of the European Common Market following freer convertibility of currencies, more stable governments, and a common external tariff on many products has encouraged many of our large corporations to set up production facilities in Europe. In 1950, United States firms had \$637 million invested in Common Market countries. By 1961 this had increased to over \$2,580 million.

Between 1958 and 1962, 1,298 American firms started new operations in Common Market countries, entered into joint ventures with European partners, or licensed manufacture of their products by a firm in these countries (Table 2). Experience in large-scale distribution and marketing and mass production techniques used in the United States are being absorbed in Europe along with investments. Although more than half of the American firms in Common Market countries are in manufac-

TABLE 2. U.S. INVESTMENTS IN ECM, 1958-62*

Industry	Number of firms	Percent of total
Chemicals and products...	231	17.8
Nonelectrical machinery...	220	16.9
Electrical machinery and electronics...	123	9.5
Basic metals and metal products...	89	6.9
Instruments and watches...	77	5.9
Transportation equipment...	71	5.5
Food, beverages, and tobacco...	69	5.3
Textiles and clothing...	46	3.5
Petroleum and other fuels...	40	3.1
Other...	332	25.6
Total...	1,298	100.0

* Data obtained through the courtesy of Wolfgang Schoellkopf, European Economic Specialist, Chase Manhattan Bank.

turing and about a third in petroleum production, new opportunities (as in supermarkets and the manufacture of ready-made clothing) are opening up in these countries. Where operating costs are lower than in the United States, the establishment of a plant in Common Market countries allows an American firm the opportunity to compete on an equal footing with European producers and to protect its markets in other countries.

Although United States investment in all European countries, including those in the Common Market, is still less than 1 percent of that in the United States, unit profits made in European business have tended to be higher than those in domestic markets and are strengthening the financial position of investing American firms.

Pace Setters of Economic Growth

Between 1950 and 1959, according to information assembled by the Joint Economic Committee, the estimated GNP in the Western alliance increased from \$709 billion to \$1,013 billion, a net increase of 43 percent, or at an average rate of 4 percent annually. In the Sino-Soviet bloc, the estimated GNP increased from \$216 billion in 1950 to \$411 billion in 1959, a net increase of 90 percent, or at an average rate of 7.5 percent annually.

Common Market countries have had a high GNP growth rate in recent years. Between 1951 and 1960, Germany had the fastest GNP growth rate, 7.2 percent, followed by Italy, 5.8 percent, and the Netherlands, 5.1 percent. For all Common Market countries, the average was 5.3 percent. The growth rate of the OAS, SEATO, and the bilateral allies between 1950 and 1959 was 5 percent, or slightly under that of the Common Market countries. This compared with a growth rate of 3.25 percent for the United States.

In 1959 the GNP in the Common Market countries averaged \$1,239 per person. At a growth rate of 5.3 percent, the annual increase averaged \$66 per person. In the United States, with a 1959 GNP of \$2,698 per person and an annual growth rate of 3.25 percent, the annual increase amounted to \$88 per person, slightly above that of the Common Market countries. As GNP increases, the GNP growth rate tends to decrease.

Common Market countries are now the pace setters in business competition for all countries in the Western alliance, including the United States. As such, these countries are helping the Western alliance to attain an improved standard of living for its people as well as to maintain economic superiority over the Sino-Soviet bloc.

Other Probable Changes

Though temporarily halted, eventual integration of

the United Kingdom and other countries of the European Free Trade Area into the EEC, either as members or associate members, is probable. Application of the law of comparative advantage to all or most of the countries in Western Europe will make possible an economy that will rank in output with those of the United States and Soviet Russia. Broadening of the EEC to include other European countries will help to increase further the market for American products.

In the second place, as GNP in European countries increases, this will make it possible for them to assume a larger share of costs both for military defense and for the development of underdeveloped nations.

Finally, with a century in retrospect during which France and Germany engaged in three major wars, economic integration of these and other countries in Europe has indefinitely postponed or permanently averted the possibility of another war between these countries. This is of major importance to the United States because of our military commitments in Europe.

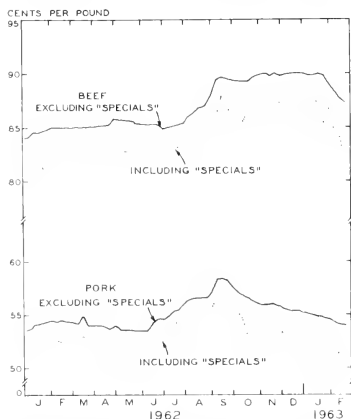
Recent Economic Changes

(Continued from page 5)

adjusted basis. The remaining \$1.4 billion of the advance was accounted for by small gains in payrolls in contract construction and state and local governments and in such nonwage income as proprietors' income, dividends, and rental income.

The main cause of the substantially higher rate at which personal income has been rising during the early part of this year is the increase of wage payments in the commodity-producing industries, the largest single source of personal income. During the last eight months of 1962 payrolls in the commodity-producing industries declined \$200 million but in the first four months of 1963 they increased \$2.7 billion.

RETAIL PRICES OF BEEF AND PORK



Source: U.S. Department of Agriculture, *Marketing and Transportation Situation*, May, 1963, p. 18.

Retail Prices of Beef and Pork

Since mid-1962, livestock and meat prices have been beset by a series of changes in supplies. In the late summer and early fall, prices firmed up as farmers held their meat animals off the market. In December, however, the situation changed as the marketing of livestock rose sharply, causing prices to decline in several market centers and subsequently at wholesale and retail. In addition to these increases in the beef supply, pork and poultry supplies were also much higher during the last quarter of 1962 and the first quarter of 1963.

In the past, the pattern of retail price adjustment to substantial changes in supplies has been very similar to that shown in the accompanying chart. In the five periods of price changes since 1950, regular retail beef prices did not fall as fast or as far as might have been expected, and they did not increase as rapidly or as much when prices were rising. Retailers have tended to hold their regular prices steady and adjust to temporary changes in supply by means of "specials" for which prices are temporarily reduced. Prices exclusive of specials show considerably less variation than those which include specials. At the chart implies, when retail prices are rising, the difference between regular and special prices declines; and when prices are falling, this spread increases as retailers try to move the larger supplies at lower prices. Eventually regular prices are reduced when it becomes clear to the merchant that the supply change is permanent in character and that competitors are also likely to lower their regular prices.

Highway Construction

The Bureau of Public Roads in its annual report for 1962 estimated that capital expenditures for all roads and streets during 1963 by all levels of government will increase 8.3 percent over the \$7.2 billion spent last year. Of this anticipated outlay, \$6.1 billion will be spent on construction and \$1.7 billion on right-of-way purchases and engineering. The anticipated increase reflects a step-up in both the Interstate Highway program and the ABC program of matching funds for state and local roads.

As of the end of 1962 more than \$15 billion had been expended on the National System of Interstate and Defense Highways. Work completed had cost \$7.8 billion, of which \$6.5 billion was for construction and \$1.3 billion for engineering and right-of-way acquisition. An additional \$7.3 billion of work was under way or authorized at the close of 1962. Of this amount \$4.4 billion was for construction and \$2.9 billion for engineering and right-of-way acquisition. In progress at the end of the year was the construction of 4,341 miles and the engineering or right-of-way acquisition on another 10,995 miles. Altogether some form of work was completed or under way on 29,632 miles of interstate highways at the end of 1962, about 72 percent of the total mileage.

In addition to the Interstate System more than \$14 billion has been spent or authorized under the ABC program of federal assistance for the improvement of primary, secondary, and urban roads and streets since July 1, 1956. Construction involving 149,570 miles and \$9.8 billion had been completed by the end of 1962, and work was under way on 20,578 miles at a cost of \$2.9 billion. In addition, \$686 million of engineering and right-of-way acquisition work had been completed and \$538 million worth was under way.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Measuring Metropolitan Markets

The Office of Distribution Services, United States Department of Commerce, has just issued *Measuring Metropolitan Markets*. Designed to serve as a guideline to business in selecting promising sales areas, this publication analyzes and explains the application of marketing data available from the federal government on a geographical basis for each of the 215 areas of the country which are classified as standard metropolitan statistical areas (SMSA's).

For the marketing analyst seeking to evaluate a particular area, a wealth of United States government statistical information is available, particularly in publications of the Bureau of the Census. Census data are useful in determining such things as the size and characteristics of a market, estimating sales potentials, setting up sales quotas, defining particular sales territories, and allocating the advertising dollar by medium and geographic area. However, one major difficulty in putting such information to use is that the data for particular SMSA's are scattered throughout literally scores of separate tables in numerous publications of the various censuses involved. Thus the purpose of this manual is to identify these data and to indicate how the

data can be integrated, analyzed, and correlated to enable effective market evaluation studies to be accomplished.

The publication may be obtained from the Superintendent of Documents, United States Government Printing Office, Washington 25, D. C., or through United States Department of Commerce Field Offices located throughout the country; the price is 35 cents.

Lumber Industry Change

The United States lumber industry, which comprises approximately 32,000 establishments and employs about 240,000 people, is facing a number of difficult problems. First, it suffers from an oversupply of lumber caused by a decline in the construction of single-family houses and by competition from other materials. Second, it suffers from outdated and obsolete layout and equipment in many mills. A third problem of the industry is the increase in lumber imports, mainly softwood, from Canada.

According to the Business and Defense Services Administration of the Department of Commerce, Lumber needs in the construction industry during 1963 are expected to equal or exceed those in 1962 as a rise of 3.3 percent is anticipated in public and private construction. In addition, a larger outlay for residential alterations, repairs, and nonresidential construction than in 1962 is in prospect. The pallet industry, which last year used 1.7 billion board feet of lumber, is the fastest growing lumber-consuming industry and the increase this year in its use of domestic products is estimated at 5 to 7 percent. The use of lumber for containers is expected to be 5 percent greater than in 1962. Household furniture may use 4 percent more lumber than in 1962 and other forms of furniture anticipate a 2 to 3 percent rise over 1962. In addition new orders from railroad companies indicate that 15 percent more freight cars will be built and 5 percent more railroad ties will be made during 1963.

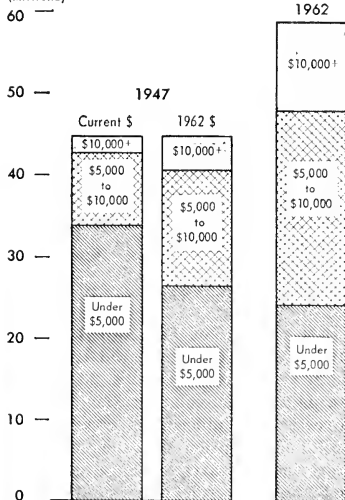
Shift in Distribution of Income

The total personal income of families and unattached individuals reached \$419 billion in 1962, an increase of 5.8 percent over 1961, according to the Department of Commerce. The upward shift of units along the income scale produced a gain of \$120 and a total income of \$7,140 for the average consumer unit. In 1962 the proportion of units earning below \$5,000 declined 2 percentage points from 1961 whereas those earning \$10,000 or more increased 2 percentage points.

The effect of this shift in income distribution over the past 15 years can be seen in the accompanying chart. In 1947 only 4.5 percent of all consumer units had an income of \$10,000 or more, but in 1962 a full 19 percent were in this group. Also in 1947, less than 20 percent of the consumer units earned between \$5,000 and \$10,000 a year, but in 1962 over 40 percent had reached this total. The number of consumer units earning less than \$5,000 a year fell from 76 percent in 1947 to 41 percent in 1962. The distribution of consumer units has also tended toward less concentration. Whereas 50 percent of all units were in the three middle income brackets (of \$1,000 each) in 1947, the same percentage of units were about evenly distributed among the five middle income brackets in 1962.

CONSUMER UNIT INCOME, 1947 AND 1962

Number of
consumer units
(Millions)

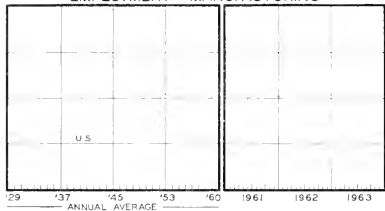


Source: U.S. Department of Commerce, *Survey of Current Business*, April, 1963, p. 14.

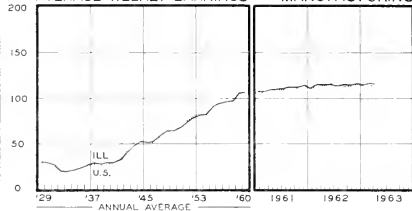
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

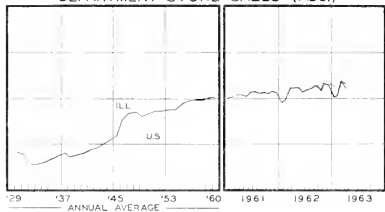
EMPLOYMENT - MANUFACTURING



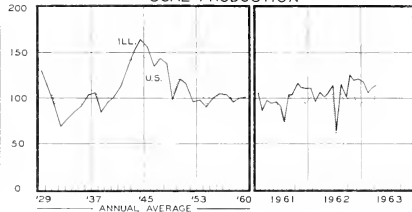
AVERAGE WEEKLY EARNINGS - MANUFACTURING



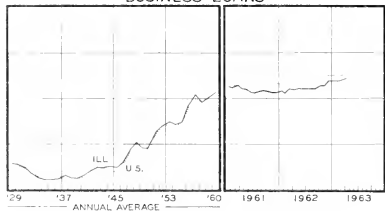
DEPARTMENT STORE SALES (ADJ.)



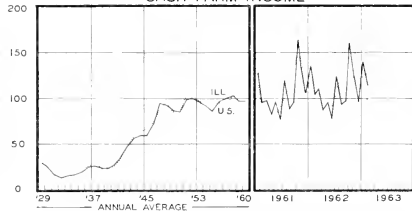
COAL PRODUCTION



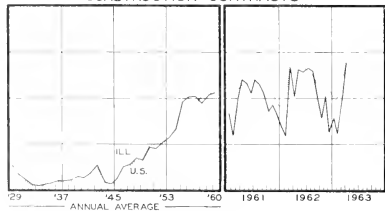
BUSINESS LOANS



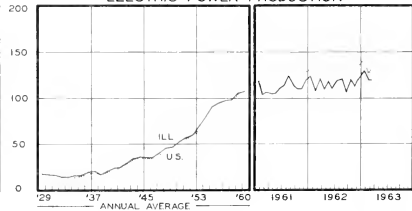
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



365-1
P.5

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

JUL 26 1963

UNIVERSITY OF ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 20

JULY, 1963

NUMBER 7

HIGHLIGHTS OF BUSINESS IN JUNE

The automotive industry maintained a fairly rapid pace in June, producing 689,500 cars; this was down from the May level, as expected, but was more than a fifth above production in June, 1962. Steel ingot tonnage fell each week during June in the anticipated letdown as the possibility of a strike receded and was finally eliminated. By the end of the month, weekly output had dropped about an eighth below the late-May high point. Petroleum, coal, and electric power production showed moderate increases; paper and paperboard output showed little change. The FRB index of industrial production rose to 125 (1957-59 = 100) after seasonal adjustment.

Adjusted retail sales were off very slightly from the May figure to a total of \$20.3 billion. Both durables and nondurables were much the same as in May, but shifts occurred in some component groups. Furniture and appliance sales were up, whereas sales of cars were down. The index of department store sales rose from 117 (1957-59 = 100) to 120.

Employment at Record

The number of employed workers in the June survey week was up seasonally to the highest level on record; a gain of 1.26 million in employment raised the total to 70.3 million. This was the first time the number of job-holders had exceeded 70 million. Since June is a peak employment month, however, the total is expected to fall below that level in coming months. Nonagricultural employment rose about as expected, by 482,000 to nearly 64.4 million.

Unemployment was also higher, as a result of an increase in the number of teenagers looking for jobs. The total was somewhat more than 4.8 million, 780,000 above May; but because the rise was less than expected, the seasonally adjusted rate of unemployment dropped back to 5.7 percent from 5.9 percent.

Construction Shows Strong Rise

The total value of new construction put in place in June has been estimated at \$5.9 billion. The advance over May exceeded seasonal expectations; the anticipated gain was 6 percent but the actual rate was 8 percent. Compared with the previous June, new construction expenditures were 2 percent higher. Private construction accounted for \$4.2 billion of the total, up 6 percent instead of the expected 4 percent; private nonfarm resi-

dential construction particularly showed considerable strength. Public construction was valued at \$1.7 billion, a more-than-seasonal 13 percent above the May figure.

For the first half of the year, the value of new construction was estimated at \$28.8 billion, 4 percent higher than in the corresponding period of 1962. Outlays for new private projects totaled \$20.9 billion, an increase of 5 percent; and spending for new public construction was up 2 percent to \$7.9 billion.

New Steel Agreement

The possibility of a steel strike this year was ended on June 20 when the major steel companies and the United Steelworkers reached a new agreement. The outstanding feature of the new contract was a provision for a 13-week vacation every five years for the half of each company's hourly workers having the longest service. The steel union has been seeking such a plan as one way of making more jobs available in the industry.

Other terms provided for expanded insurance benefits, tighter restrictions on contracting out work, a ban on supervisors' doing work normally done by union members, and discussion of management decisions to schedule overtime operations instead of recalling laid-off workers. No wage increase was included. The cost of the new benefits is estimated at 15 cents an hour over the life of the contract, which assures that there will be no strike in the industry at least until May 1, 1965.

Instalment Credit Growth Slows

The rate of growth in instalment credit dropped back in May after a spurt ahead in April. The total outstanding at the end of May was \$49.5 billion, \$434 million over April after adjustment for seasonal factors. The April increase was \$530 million. Much of the slowdown occurred in instalment loans on automobiles; the net addition in that category was \$224 million in May, compared with \$294 million the month before. The advances in credit outstanding on other consumer goods and in personal loans were also smaller than those of the month before, but in all three cases May increases about equaled the first-quarter averages.

Noninstalment credit was up \$89 million, mainly as a result of additions to charge accounts. Total consumer credit outstanding, at nearly \$64.2 billion, was more than \$5.8 billion above the year-earlier figure.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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The Importance of Tax Cuts

The economic climate has improved greatly since last fall, but optimism has risen even faster. Many optimists now feel that a tax cut is unnecessary despite continuing high unemployment, and some add that we should tighten up on credit and raise interest rates instead.

These views may be attributed in part to the propensity to project recent changes ahead into the future. Thus, it seems that quarterly increases of \$8 or \$9 billion, like those of the first two quarters, should extend to over \$30 billion for the year, and possibly to well over \$60 billion by the end of 1964. It is an enticing arithmetical exercise, though unfortunately without the support of logic. Several important elements in the recent rise have made temporary spurts to levels from which they may soon turn down.

Turnabout Factors in the Recovery

Last month our sober look at auto demand led to the conclusion that a substantial downward adjustment was likely to get under way in the next few months. Sales in the second quarter were pushed up to an extreme high, beyond any rate that could readily be explained in terms of the usual factors affecting consumer purchases. The contribution of credit to this movement is also extreme, and the gap between extensions and repayments is likely to narrow in the months ahead, with adverse effects on total consumption as well as on auto sales.

The boomlet in inventory buying is likewise subject to an early downturn. This is probable even though inventories were just about in line with needs at the beginning of the year and there is no indication that the movement is now out of hand. The buying movement began in steel, in anticipation of a possible strike or higher prices, and is still largely confined to durable goods. Now some increases in steel prices have been taken and a settlement with the steelworkers has been reached. The need for downward adjustment is evident in the recent rate of steel production, which will probably have to drop back 20 percent just to prevent further accumulation and more of some excess stocks are liquidated. In over-all terms, this is not a major depressant, but it is a distinct break in the trend.

In home-building, also, there has recently been an upward push to a level that seems well beyond the point of sustainability. The special article in the March issue

of this *Review* cited many reasons why the construction outlook for this year was moderately unfavorable as compared with last year. After a brief letdown in the winter months, new housing starts were pushed up to extreme highs in the second quarter. Since the unfavorable factors in the picture have not been changed, this sharp rise appears to be another of those aberrations which cannot long persist.

In building as in auto sales, credit has been playing a special role. The unusually heavy flow of funds into time and savings deposits has produced strong lender competition for mortgage loans. In combination with strongly rising employment, this has encouraged building. But the advance in employment is not likely to continue at the same rate, and other demographic factors are still unfavorable. Foreclosures and vacancies are relatively high and rising, and building is increasingly concentrated in apartments, the most volatile segment of the industry. There is little that can now be done to stimulate housing demand further, and any attempt to restrict credit may have unusually severe consequences.

These are potent negative influences. Their effects will not necessarily be overriding, but they are certainly important enough to change the character of the upswing experienced so far in 1963. Together, they could bring recovery to a standstill by the end of the year.

Some Favorable Factors

In assessing these changes from the standpoint of the economy as a whole, it is necessary to consider also the factors that are still favorable. Business outlays for plant and equipment, government expenditures, and some consumer items are expected to continue rising through 1963.

The latest Commerce-SEC survey of planned capital expenditures confirms the earlier findings that put 1963 expenditures 5 percent over 1962. However, the first quarter was revised downward, so the advance in the remainder of the year is expected to be stronger. This item is now scheduled to contribute an additional \$3 billion to gross national product during the second half of the year, but the picture here is not one of all-out boom as has widely been asserted.

In terms of constant dollars, the investment rate may be back to the 1957 high by the end of the year. This rate of investment appears adequate to meet expected needs. Capacity has increased fully as fast as production in recent years—in fact, the percent of capacity operated this year may be a little lower than at the 1957 high. Under the circumstances, any letdown in production will tend to affect new investment, just as last year's slowdown resulted in the minor year-end decline.

Government spending has been another major support for the economic advance of recent years. The steady upward trend in state and local purchases of goods and services, amounting to \$4 billion a year, is expected to continue. Federal purchases are also expected to gain about \$4 billion this year, but since a \$2.5 billion advance was realized in the first quarter, further increases will be at a very low rate. Strong opposition to expenditure increases will tend to place a ceiling on the federal budget in the absence of new international disturbances. This is another reason why the Administration has turned to tax reduction as a means of stimulating the economy.

There are some trend factors in consumer spending, but apart from the rather steady rise in the prices of some consumer services, these autonomous elements

(Continued on page 6)

THE STATE AND COUNTY FAIRS OF ILLINOIS

The fairs of Illinois, which are now a multimillion-dollar activity, may be said to have a long lineage. The fairs of the Middle Ages grew out of earlier religious festivals, and combined religion, trade, and amusement. The religious aspects declined, changing patterns of commerce reduced the need for fairs for trading, and many of them degenerated badly.

The truly agricultural fair appeared in England about 200 years ago and was promoted to help agriculture through a difficult period of change by spreading information on methods of improvement. Similar problems confronted the American farmer, but the agricultural societies formed were too remote from the farmer, even though they had such realistic members as George Washington and Benjamin Franklin. It was not until 1804—in Washington—that an agricultural fair was held, but it was not successful enough to last.

What was really needed was provided by Elkanah Watson, who first organized local farmers to hold a simple cattle show in Pittsfield, Massachusetts, in 1810. He spread his ideas farther, state aid was commonly given, and in spite of the inevitable ups and downs, this type of fair became part of the American way of life.

The Illinois State Fair

In 1819 a state agricultural society was formed in Illinois, but lasted only seven years. In 1853 the Illinois Agricultural Society was incorporated and held a fair at Springfield; but in the next 40 years, 11 other locations were also used, with Springfield finally being chosen as the permanent site. In the first year premiums totaled \$944; by 1901 they were \$34,000; 1930 saw them reach \$151,000; and this year over \$1 million will be offered in cash awards.

There are now 103 display buildings, valued at \$14 million. Last year there were 856,000 paid attendances. This year the livestock show is claimed to be the largest in the nation; Illinois industry is increasing its displays; a mile-long farm machinery show will be offered for the first time; and prizes for harness racing top half a million dollars. About 20,000 exhibits and displays are expected, ranging from prize bulls to children's art. If all this is not sufficient reason for a visit there are also automobile and motorcycle races, nightly horse shows, an amusement park, parachute jumpers, and, of course, some political flavor.

The Illinois County Fairs

The Illinois heyday of forming county associations and their fairs was 1852-58, when 94 were established. This year 103 county fairs will be held. Some limit their events to a few popular livestock events, but most have 12 to 14 categories.

The largest is the DuQuoin State Fair in Perry County. Although more recently established (1923), it is now nationally known as the home of the Hambletonian harness race. In addition to this and its large agricultural

and associated events, it boasts automobile racing, star entertainers, and this year the National Air Show.

Kankakee, situated in a well-populated area and well-known for its rodeo offerings, ranks second. Peoria follows closely and also has a large urban patronage, as does the St. Clair fair at Belleville. Champaign is one of the oldest, dating from 1852, and today ranks high among the fairs, especially in entertainment. Marion County leads in variety, with 20 categories of entries. The Martinsville fair in Clark County is noted for racing events and ranks second in premiums and number of categories.

All the fairs provide a wide range of events. In 1961, 78 had machinery exhibits, 60 offered stage attractions, 51 had racing, over 40 held western horse events, tractor pulls, and thrill shows, and 63 queens received their crowns with all the proper pomp and ceremony.

A little over half the fairs own their grounds and obtain some revenues from other uses; but the biggest business is during the few days of the county fair. In 1962, they took in a total of \$3.4 million, received \$1.3 million in state aid, and paid out \$2.3 million in premiums. There were almost 291,000 competitive entries, and attendance totaled nearly 3 million.

Changing Conditions

Through the years the fairs of Illinois have experienced considerable change. The role of the state government in organization and assistance has increased ever since the Department of Agriculture was formed in 1872. The widespread participation of young people started in 1899 when W. B. Otwell of Macoupin County handed out high-grade seed to boys and girls. The youth organizations then developed. Starting in the 1920's, the state fair rapidly increased its junior premiums. Many fairs instituted week-long courses of interest to young people on subjects such as livestock, domestic science, and even baby care. In 1961, there were 63 fairs with 4-11 participants, and the range of their competitive classes is still being extended. Local schools are used as a medium for promoting active interest.

The automobile proved both a boon and a problem, and many fairs responded to the challenge by adding better amusements. Today, fairs are having to face the problem of further change. At the root of this lies increasing urbanization, greater sophistication, and the competition of other interests and attractions inherent in a rising standard of living. Some fairs are successfully adjusting to this, while others are not and may pass away from the scene entirely.

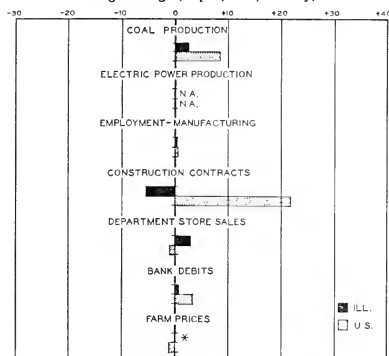
Strong emphasis must be placed on the range of the fair, extending from livestock and racing to hobbies, creative arts, and educational projects. Good entertainment has proven its value. The urban dweller can be interested in industrial products. The fairs today still can utilize their important asset of combining community spirit, individual accomplishment, industry, business, education, and just plain amusement.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, April, 1963, to May, 1963



* Not seasonally adjusted. * No change. n.a. Not available.

ILLINOIS BUSINESS INDEXES

Item	May 1963 (1957-59 = 100)	Percentage change from	
		Apr. 1963	May 1962
Electric power ¹	n.a.		
Coal production ²	116.9	+ 2.6	+11.2
Employment—manufacturing ³	98.1	+ 0.3	+ 0.9
Weekly earnings—manufacturing ⁴	118.7 ^a	+ 1.3	+ 3.1
Dept. store sales in Chicago ⁵	111.0 ^b	- 0.9	- 0.9
Consumer prices in Chicago ⁶	105.0	0.0	+ 0.4
Construction contracts ⁷	131.7	- 5.3	- 0.3
Bank debits ⁸	146.0	+ 0.8	+ 2.4
Farm prices ⁹	94.0	0.0	- 2.0
Life insurance sales (ordinary) ¹⁰	134.1	+ 0.9	+11.6
Petroleum production ¹¹	97.2	+ 2.4	- 5.9

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

* Preliminary. * Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	May 1963	Percentage change from	
		Apr. 1963	May 1962
Personal income ¹	458.2 ^a	+ 0.4	+ 4.3
Manufacturing ¹	418.8 ^a	- 0.0	+ 4.2
Sales.....	58.4 ^{a,b}	+ 0.5	+ 3.0
Inventories.....	29.1	+17.7	+ 5.2
New construction activity ¹	18.1	+ 6.3	- 0.2
Private residential.....	18.6	+20.0	+ 3.7
Private nonresidential.....	24.7 ^c	- 3.2	+ 9.1
Total public.....	17.5 ^c	- 0.1	+ 9.7
Foreign trade ¹	7.1 ^c	-10.0	+ 7.8
Merchandise exports.....	24.7 ^c	- 3.2	+ 9.1
Merchandise imports.....	17.5 ^c	- 0.1	+ 9.7
Excess of exports.....	7.1 ^c	-10.0	+ 7.8
Consumer credit outstanding ²	64.2 ^b	+ 1.5	+10.0
Total credit.....	49.5 ^b	+ 1.3	+11.2
Installment credit.....	40.4 ^b	- 1.1	+ 7.5
Business loans ³	26.8 ^c	- 6.9	- 0.8
Cash farm income ³			
Indexes (1957-59 = 100)			
Industrial production ²	124 ^a	+ 0.7	+ 4.5
Combined index.....	125 ^a	+ 1.4	+ 5.3
Durable manufactures.....	124 ^a	+ 0.8	+ 3.9
Non-durable manufactures.....	108 ^a	+ 1.0	+ 2.7
Minerals.....			
Manufacturing employment ⁴	100 ^a	+ 0.5	+ 0.1
Production workers.....			
Factory worker earnings ¹	102	+ 1.3	- 0.2
Average hours worked.....	114	0.0	+ 2.5
Average hourly earnings.....	116	+ 1.2	+ 2.3
Average weekly earnings.....	169	+21.8	+21.0
Construction contracts ⁵	116 ^a	+ 0.9	+ 2.7
Department store sales ⁶	106	0.0	+ 1.0
Consumer price index ⁷			
Wholesale prices ⁸	100	+ 0.4	- 0.1
All commodities.....	94	- 1.0	- 1.9
Farm products.....	102	+ 2.2	+ 1.9
Foods.....	101	+ 0.1	+ 0.4
Other.....			
Farm prices ⁹	99	- 1.0	- 1.0
Received by farmers.....	106	0.0	+ 1.0
Paid by farmers.....	77 ¹	- 1.3	- 2.5
Parity ratio.....			

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for April, 1963, compared with March, 1963, and April, 1962. ⁹ Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1963					1962
	June 29	June 22	June 15	June 8	June 1	June 30
Production:						
Bituminous coal (daily avg.).....	1,699	1,636	1,629	1,578	1,535	1,529
Electric power by utilities.....	17,925	17,369	17,839	17,368	16,105	16,520
Motor vehicles (Wards).....	200	200	203	198	164	150
Petroleum (daily avg.).....	7,508	7,541	7,512	7,432	7,453	7,260
Steel.....	124.2	130.2	132.3	134.9	140.0	80.6
Freight carloadings.....	602	599	616	606	548	590
Department store sales.....	102	103	126	120	100	94
Commodity prices, wholesale:						
All commodities.....	100.1	99.9	100.1	100.0	100.1	100.0 ^a
Other than farm products and foods.....	100.5	100.6	100.5	100.5	100.5	100.7 ^a
22 commodities.....	92.7	93.5	93.9	94.0	95.6	93.4
Finance:						
Business loans.....	35,599	35,489	35,034	34,962	35,097	33,354
Failures, industrial and commercial.....	296	274	304	303	235	302

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for June, 1962.

RECENT ECONOMIC CHANGES

Industrial Production Higher

The current rate of industrial production is running at about 4.0 percent, which has been the average annual growth rate of industrial production since 1947. Actually there have been three general periods of change. In the first period, between 1947 and 1953, the annual rate of increase in output averaged 5.6 percent under the stimulus of postwar demands and the Korean conflict. During the second phase, 1953 to 1960, the annual rate of growth dropped to 2.5 percent; since 1960, the annual rate of growth in industrial production has risen to 3.4 percent.

As indicated in the chart some groups have shown continuous strong growth, and others have shown more gradual increases with occasional slight declines. Utilities, for instance, have benefited from the greater use of electricity and natural gas whereas coal mining has slackened off. Several other groups, such as farm equipment, coal mining, wood containers, and wool fabrics have shown almost continuous decreases from postwar highs. In manufacturing the gains in output of durables and non-durables have been about the same but the output of durables has fluctuated much more than that of non-durables.

Equipment (including defense) rose most rapidly during the early postwar years and early fifties whereas consumer goods, which account for two-thirds of final products, went up more gradually as indicated in the chart. Although production of consumer goods has risen fairly steadily over the years, certain components have shown large fluctuations. Such goods as autos and television sets in particular have shown large cyclical movements depending to a great extent on such factors as labor strife, ease of credit, newness of the particular item, and inventories.

At the end of 1962 a survey conducted by McGraw-

Hill indicated that manufacturing industries were performing at about 83 percent of capacity compared with a desired operating ratio of 92 percent. It was expected that during 1963 the ratio will increase to about 87 percent. Thus the leveling growth curve discussed so extensively in the early sixties may actually have been only the effect of the recessions of 1958 and 1961.

Farm Real Estate Value Increases

The total market value of farm real estate rose to a new record of \$144.2 billion on March 1, 1963. This was \$6.2 billion higher than a year earlier and equaled the previous year's gain, which was the highest ever recorded.

The most important factor in the advance was a 4.5 percent increase in the average value per acre. The upward trend in per-acre values slowed perceptibly in late 1959 and 1960 but resumed in response to the higher level of farm income realized in 1961. Market prices showed their greatest strength in the Southeast and South Central parts of the country where the rates of increase were 4.7 percent and 6.4 percent respectively. The upturn was relatively small, 3.1 percent, in the Corn Belt, although land values in Illinois, Indiana, North Dakota, and South Dakota had improved markedly over the previous 12 months.

Inventory and Sales Expectations

Manufacturers expect a continued rise in both sales and inventory accumulation in the second and third quarters of this year, according to the Department of Commerce. An over-all sales increase of 3 percent is projected. If this expectation is realized, sales will reach a new high of \$106.0 billion in the third quarter, on a seasonally adjusted basis. Durable goods producers expect a 2 percent gain in the third quarter, whereas nondurable goods manufacturers look for an advance of only 1 percent.

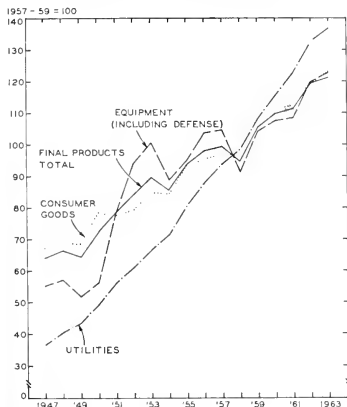
Manufacturers anticipate that their inventory book values were up \$900 million in the second quarter and will rise \$600 million in the summer quarter compared with \$500 million in the first quarter. This would bring book values of manufacturers' inventories to \$59.4 billion, seasonally adjusted, at the end of September, compared with \$57.9 billion at the end of the first quarter. Durable goods producers will account for four-fifths of the projected rise in total factory stocks, a considerably larger proportion than in recent quarters.

Government Borrowing Rises

During 1962 the federal government ran a deficit on income and product account of about \$3.4 billion. To cover this deficit and support lending operations of \$4.4 billion, it borrowed \$7.8 billion net from nonfederal sources. The amount of federal borrowing was increased by 10 percent in order to exert additional pressure on short-term interest rates. This has had the effect of augmenting the Treasury cash balance and expanding the market supply of Treasury bills. In addition to financing government operations and raising the Treasury cash balance, the federal government also refinanced about \$86 billion of debt which was due to mature.

The major markets for Treasury securities were the Federal Reserve System and foreigners, who each took \$2 billion worth. Domestic enterprises and state and local governments each added \$750 million to their holdings,

POSTWAR GROWTH
IN INDUSTRIAL PRODUCTION



Source: Federal Reserve Board.

and miscellaneous investors increased their holdings by \$1 billion. The commercial banking system and other domestic financial institutions did not expand their holdings last year.

Farm Price Supports

According to the latest figures from the Agriculture Department, federal spending on agriculture is expected to total \$5.7 billion in fiscal 1964, 18 percent less than in fiscal 1963. However, \$3.9 billion will be spent for price supports, an 18 percent increase over the average of the previous three years.

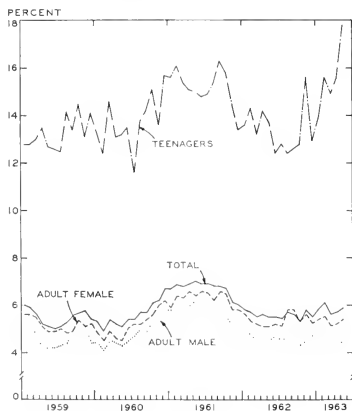
Farm price supports, disposal of surpluses, and other farm income aids have accounted for about 75 percent of the total agriculture expenditures in recent years. The rest is spent for such things as farm housing, rural electrification, conservation, and research.

Unemployment of Youth

The number of teenagers out of work in May totaled 1.2 million, or 17.8 percent of the total number of teenagers in the labor force, as indicated in the chart. This is the largest unemployment rate for any group in the labor force. As a matter of comparison, both the adult male and adult female rates of unemployment have consistently been lower than the total rate of unemployment.

The Department of Labor calculates that the rate of unemployment for teenagers, who now account for 25 percent of the unemployed, will grow to 30 percent or more by 1967. With an anticipated 26 million new young workers expected to enter the labor force during this decade, and only about 24 percent of them college trained, the hardships caused by untrained and ill-equipped young job hunters will be aggravated. However, the number of college graduates increased from 8 percent to 11 percent over the last decade, and the number of high school graduates rose from 43 percent to 54 percent.

UNEMPLOYMENT RATES



Source: U.S. Bureau of the Census.

The Importance of Tax Cuts

(Continued from page 2)

amount to only about \$2 billion a year. The major changes in consumer spending are still dependent on income, and the strong advance in personal income since the 1961 low has been a feature of the recovery. On the other hand, the credit situation is now unfavorable to further increases in spending. Consumers generally have shown little fear of expanding their debt and have been using credit to the hilt.

Consumer saving as a whole has fallen to the low rate of 6.3 percent despite a high rate of saving in liquid form. Implications of this saving-liquidity pattern are not at all clear, as the article by Brill in the June issue of the *Federal Reserve Bulletin* points out. High liquid asset balances are not necessarily inflationary because holders may simply continue to save. If at the same time those consumers who have been spending and borrowing attempted to limit their indebtedness, the net saving rate would recover. The recent norm has been about 7 percent, and such a recovery would, of course, restrict spending. A mere leveling of income could then bring a halt to the upward trend of consumption.

Will Tax Cuts Turn the Tide?

On balance, the total of the favorable items may be enough to offset the reversing items. However, the former assure only about \$8 or \$9 billion during the second half of the year, and in view of the greater variability of the latter, the balance of forces at year-end is doubtful. In other words, we may have an incipient recession on our hands late this year or early in 1964. This prospect has led President Kennedy to say, "We're either going to have this tax reduction program or we're going to move into a recession as we did in the 1950's."

The Administration has, in short, been relying upon the proposed tax cut to pull us out of any difficulty that might be encountered and to push us ahead toward full employment. Its confidence in the proposed program may be somewhat exaggerated. The special article in the February issue of this *Review* explained why the specific cuts proposed are not well designed to get the maximum effect in terms of increased private expenditure. Nevertheless, even discounting for possible exaggeration, the tax cut would tend to ensure another year of growth for an economy teetering on the balance of stagnation at the end of 1963.

Beyond the realm of the slowdown that must now be expected, there is a potentially more serious reason why we cannot afford to risk a recession in 1964. For the first time in the postwar period, all the cyclical factors are working together. Autos, housing, inventories, and capital outlays—aided and abetted by credit expansion—have either reached or are approaching new peaks. In previous recessions, such as 1954 and 1958, housing and auto demand came in strong when inventories and capital spending turned weak. But this is not likely to happen again. If a new recession should get under way and all the cyclical factors turned down in concert, the problem might well prove to be unmanageable.

In that greater danger lies the importance of cutting taxes. Such action provides no certainty of continued prosperity through the dangerous years of the middle 1960's. It does afford some inexpensive insurance against economic disaster and a reasonable hope for steady progress.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Automatic Data Processing in Government

Since the first installation in 1949, the number of electronic computers in use by the federal government has grown to 1,169 in service today. Originally used solely for scientific purposes, these computers are now widely utilized for administrative and program operations. The particular function of a department or agency is usually indicative of the purpose for which a computer is employed. The wide diversification of applications can be illustrated by such functions as supply management, aircraft detection and warning, radio-TV frequency control, river propagation studies, and road design. During fiscal 1962, 786 of the 1,006 computers were used for one specified category of work and 220 for two or more. The 786 used in only one category were about evenly divided among the three major types of work—scientific, administrative, and program operations.

As indicated in the chart, the department or agency with the largest number of computers this fiscal year is the Defense Department, which has 750 electronic computers or 64 percent of all computers being operated by the federal government. The year of greatest growth for electronic computers was 1962, when the number jumped 29 percent from the previous year. Agencies which have shown the greatest growth during the last three years have been the Atomic Energy Commission (55 percent to 119 computers), the National Aeronautics and Space Administration (48 percent to 90 computers), and the Department of the Treasury (112 percent to 36 computers).

Although there has also been an increase in the number of employees working with automatic data processing

equipment, the percentage rise of employees during the last three years has not been as great as the percentage climb in the number of computer units. In addition, the improvement in efficiency and effectiveness resulting from the use of ADP equipment has helped the federal government to hold its work force at a fairly constant level during the last five years.

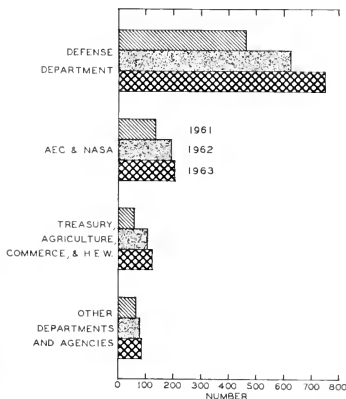
Home Mortgage Debt Rises

At the end of 1962 mortgage debt on families of one to four persons living in nonfarm homes totaled \$168.7 billion, 10 percent above the previous year. Although this increase was the largest ever recorded in one year, the percentage gain was considerably smaller than those recorded in the early postwar years when the average advance was 17 percent.

The ratio of debt to disposable personal income has continued its yearly rise from the wartime low of \$12.20 of mortgage debt per \$100 of disposable personal income to a record high of \$44.10 last year. Among the factors responsible for this continuing increase in home mortgage debt are the preference for home ownership, rising costs of home-building, lower down payments and longer maturities, and a rise in the percentage of mortgaged dwelling units compared with debt-free homes.

One bleak aspect of the expansion in mortgage debt has been the number of foreclosures. The rate now stands at 4 per 1,000 nonfarm mortgaged homes compared with only 2 per 1,000 just after the war. However, the ability of people to pay their mortgage debt should not noticeably decline so long as disposable personal income remains at record levels, according to the Federal Home Loan Bank Board.

**ELECTRONIC COMPUTERS IN USE
BY U.S. GOVERNMENT**



Source: U.S. Department of Labor, *Manpower Report*, No. 6, May, 1963, p. 3.

Inflation Increases in Europe

After a prolonged period of economic progress with only a moderate upward movement of costs and prices, Western Europe has suddenly fallen prey to widespread wage-price increases. Germany, France, Italy, and the Netherlands, which have realized the greatest gains in productivity recently, have also experienced large advances in wage levels. Germany, for instance, showed successive wage gains of 11.0, 10.7, and 11.6 percent over the previous year for 1960, 1961, and 1962 respectively.

This wage-price spiral seems to be persisting. The recent 35-day strike of French coal miners ended only after an agreement was reached giving them a 6.5 percent wage increase immediately, 8 percent by October 1, 1963, and at least 12.5 percent by April 1, 1964. Difficulties arise from the profit squeeze that this wage-price spiral is beginning to produce, and there is also an adverse effect on the availability of long-term funds to European capital markets. European confidence in the value of money, shaken by inflation during and after two world wars, continues to lag, as is evidenced by the lack of market demands for long-term bonds and the continued private hoarding of gold. However, this upward movement of wages and consequently prices in Western European countries has helped to mitigate to some extent the adverse balance of payments the United States has been experiencing recently.

DO WE OR DON'T WE WANT RAILROAD MERGERS?

D. PHILIP LOCKLIN, Professor of Economics

The numerous railroad consolidation cases now before the Interstate Commerce Commission, and others which are in the discussion stage among the railroads involved, raise the question whether consolidations are or are not in the public interest.

Since 1920, governmental policy has favored the consolidation of railroads into fewer systems. It has been taken for granted that consolidations would enable the railroads to effect significant economies, provide better service, and bring about a more efficient organization of railroad operations. The Transportation Act of 1920 sought to encourage the consolidation of railroads into a limited number of well-balanced and competing systems. As recently as 1958, the Senate Commerce Committee chided the railroad industry for not being sufficiently interested in self-help through consolidations and mergers. The so-called Doyle Report, made for the Senate Commerce Committee in 1960, considered railroad consolidations to be an important element in restoring the railroad industry to a condition of growth and financial health.

Now that a merger movement has at last gotten under way, doubts as to the desirability of mergers and fears as to their consequences have been expressed; and efforts are being made to impose restrictions on consolidations that could bring the movement to a halt.

Development of Merger Policy

The application of the Sherman Antitrust Act to control of competing railroads in the Northern Securities Case in 1904, followed by later prosecutions under the Sherman Act, checked the consolidation movement of the late 1890's and the early years of the twentieth century, a movement which was motivated largely by efforts to control competition among competing railway systems. Between 1904 and 1920 few railroad consolidations occurred.

Public policy toward railroad consolidations came in for thorough review in 1919 when Congress was re-examining our whole regulatory policy relating to railroads. The consolidation of railroads into a smaller number of systems was considered desirable and measures were taken which it was thought would contribute to this end. Railroad consolidations and acquisitions of control were brought under the supervision of the Interstate Commerce Commission. Consolidations, to meet commission approval, were to conform to a master plan of consolidation which was to be drawn up by the Interstate Commerce Commission in advance according to certain specifications laid down in the act. Approval of a consolidation carried with it exemption from the anti-trust laws so far as might be necessary in order to effectuate the consolidation. The idea of consolidation according to a commission-made plan proved a complete failure. Between 1920 and 1940 few consolidations or changes in control occurred, and the more significant ones were accomplished outside of commission control by

resort to holding companies which, until 1933, were beyond the commission's jurisdiction.

In 1940, policy toward railroad consolidation came up for review once more by Congress. The present law relating to railroad consolidation came into being at that time. Congress still considered railroad consolidation to be desirable and it eliminated the requirement that consolidations, to receive ICC approval, must conform to a master plan, thereby removing what was considered to be the major obstacle to actual consolidation. Congress required, of course, that consolidations be approved by the commission on a finding that they were in the public interest; and it continued the exemption from the anti-trust laws if the consolidation met with commission approval.

Amendment of the act in 1940, however, did not result in appreciable consolidation activity for another fifteen years or so.

The Present Consolidation Movement

The present flurry of mergers and acquisitions of control began in 1959. From 1959 to the present, the commission has approved the following major consolidations or acquisitions of control, omitting the cases which involve the merging of controlled roads into the parent company:

Norfolk and Western—Virginian merger (1959)
Erie—Delaware, Lackawanna and Western merger (1960)
Chicago and North Western purchase of the Minneapolis and St. Louis (1960)
Pennsylvania control of Lehigh Valley (1960)
Chesapeake and Ohio control of Baltimore and Ohio (1963).

The following proposed consolidations or acquisitions of control are now in process before the Interstate Commerce Commission:

Pennsylvania—New York Central
Great Northern—Northern Pacific—Burlington
Norfolk and Western—Nickel Plate—Wabash
Missouri Pacific control of Chicago and Eastern Illinois
Illinois Central control of Chicago and Eastern Illinois
Seaboard Airline—Atlantic Coast Line
Southern Pacific control of Western Pacific
Atchafalpa, Topeka and Santa Fe control of Western Pacific

(Of these, the Missouri Pacific and Illinois Central proposals and the Southern Pacific and Santa Fe proposals are rival applications.)

The movement seems to be the result of a deteriorating financial condition among the railroads that has been in process for some time. Consolidation is one manifestation of an aroused determination of the industry to lower costs and to increase its ability to cope with increased competition from other modes of transport.

Opposition to Railroad Mergers

Opposition to railroad consolidations comes from three major sources: first, railroad labor; second, particular communities or regions which fear that they will be adversely affected; and third, the Department of Justice

with its interest in the antitrust laws and the preservation of competition.

The opposition of railroad labor is understandable, although distinctly shortsighted since railroad labor's long-run interest is in the preservation of a strong railroad industry that is able to compete effectively for traffic with the other modes of transport. Labor is entitled, of course, to reasonable protection against loss of jobs or reasonable compensation if loss of jobs ensues. Indeed, the present act gives substantial protection from job losses incident to railroad consolidation.

Community opposition to rail consolidations arises from fear of rail line abandonments incident to consolidation, impairment of service even if lines are not abandoned, abandonment or removal of shops, loss of taxes on railroad property, and population losses or reduced payrolls resulting from job losses. The railroads would do well to allay such fears when they can do so without making promises that they do not intend to keep. Regulatory authorities should be alert to prevent merged companies from ignoring the reasonable service requirements of the communities which they serve. Even so, the problem must be considered from a national standpoint and not from a purely local standpoint, and a reorganization of rail facilities and rail service along more efficient lines will inevitably affect certain communities and areas adversely. The adjustment of railroads to the "transportation revolution" requires that communities and areas adjust to it also.

As noted, the Department of Justice looks askance at the proposed railroad mergers. Although we long ago rejected competition in the railroad industry as the protector of the public interest, competition among railroads, if not allowed to get out of hand, has some merit. But in recent years railroads as an industry have been faced with intense competition from other modes of transport, competition which has frequently been termed "pervasive." Railroads must be geared to this competitive situation if they are to survive. Competition within the railroad industry is now of much less importance than when the antitrust laws were applied to the industry in the first two decades of the century.

Under the present law the Interstate Commerce Commission is not bound by the standards of the antitrust laws when it determines whether a proposed consolidation is in the public interest or not. The act specifically grants railroads exemption from the antitrust laws to the extent necessary to carry out a consolidation approved by the commission. Although the commission is not bound by the standards of the antitrust laws, the Supreme Court has held that it may not ignore them. Its task is to weigh the disadvantages of lessening competition against the advantages of a proposed consolidation such as cost savings and improved service. A proposal before Congress would apply the standards of Section 7 of the Clayton Act to pending railroad mergers for a limited period. This would deprive the commission of power to approve a railroad consolidation or acquisition of control that would substantially lessen competition or create a monopoly whether or not it would reduce costs, eliminate waste and duplication, or result in improved service to the public. Such a measure, as long as it remained in effect, would actually block most railroad consolidations.

Revival of the Consolidation Plan Idea

In addition to the three groups which are opposed to railroad consolidation, railroads themselves are often divided over specific consolidations proposed. Any consolidation proposed is likely to adversely affect some other railroad. Situations of this kind make decisions in consolidation cases very difficult. When a particular consolidation is proposed that would seriously injure other railroads, the latter may react in various ways. They may oppose the consolidation being proposed; they may propose a consolidation of their own, often a rival plan; they may request that the commission require that they be included in the proposed consolidation; or they may acquiesce in the consolidation if conditions are imposed which protect customary traffic interchange arrangements. It is apparent that a proposed consolidation cannot be appraised without considering its impact upon other railroads and the areas which they serve.

Because a major consolidation may adversely affect other carriers and lead to still other consolidation proposals, the idea of a comprehensive consolidation plan has been revived. Fear has been expressed that consideration of consolidations on a case-by-case basis may result in unbalanced rail systems with some lines left dangling by themselves and doomed to bankruptcy or abandonment, or that approval of one consolidation will force the commission to approve another when a better plan could have been devised for the area if the situation had not been foreclosed by approval of the first.

The purpose of the recently proposed moratorium on rail consolidations for a limited time is largely for the purpose of enabling the commission and other government agencies to formulate a plan of consolidation or at least a set of principles to control the disposition of particular applications. It is obviously undesirable for the commission to approve particular consolidations without an awareness of the over-all situation in the areas affected and without careful consideration of a desirable pattern of railway systems. On the other hand, to require a moratorium on consolidations pending the formulation of a complete plan of consolidation would postpone indefinitely the accomplishment of desirable consolidations. Any over-all plan that could be formulated would encounter serious objections from one source or another. The commission, furthermore, lacks power to force consolidations upon unwilling carriers and any attempt to grant the commission this power would raise constitutional questions.

It should be remembered that the attempt to require consolidations in conformity with a commission-made plan which was provided by the Transportation Act of 1920 proved to be a complete failure. It was for this reason that the idea was abandoned in the Transportation Act of 1940. Another attempt to require consolidation according to a master plan would likely produce the same results. Although consolidation according to a carefully devised plan has theoretical merit, it is impractical when consolidation must result from the initiative of the railroads themselves. Although consolidation according to a master plan is not feasible, the public should have assurance that the commission adequately considers over-all railroad patterns in the area affected when it decides whether or not a particular proposal is in the public interest.

LOCAL ILLINOIS DEVELOPMENTS

Personal Income Increases

Personal income in Illinois totaled \$2,513 million in April, an increase of 0.6 percent over the March total of \$2,499 million and 3.8 percent above the figure for April, 1962. According to the Measure of Personal Income prepared by *Business Week*, the state's year-to-year gain was below that of the United States, whose total increased 4.4 percent.

Illinois continues to rank third among the states in personal income, preceded only by New York and California. For the first four months of this year Illinois earned 6.7 percent of the national total. During this four-month period, personal income in Illinois amounted to over \$10 billion, compared with \$9.6 billion for the corresponding period of 1962. This was a gain of 4.5 percent and more nearly approached the nation's increase of 4.8 percent for the same period.

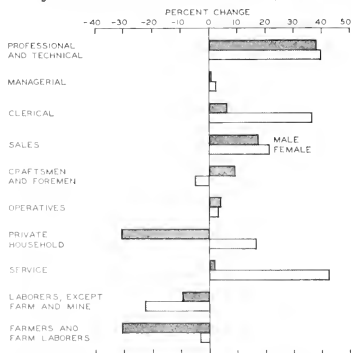
Illinois Economic Surveys

Two surveys have recently been conducted in Illinois for the purpose of aiding in the economic development of the State.

The Illinois Board of Economic Development has circulated a six-page survey form to more than 1,700 communities throughout the State for the purpose of providing better service by means of standardized information to industrial prospects.

To date, over 300 communities have filed completed forms with that office; from them essential information has been transferred to data-processing punch cards which can be sorted according to the basic requirements of each industrial prospect. Communities thus selected are sent information forms listing the requirements of particular industries seeking Illinois locations, and data on localities fitting these requirements are sent to the firms. Communities indicating an interest in particular industries are kept informed of the status of each of the establishments they would like to obtain.

PROJECTED PERCENTAGE CHANGE
IN MAJOR OCCUPATIONAL GROUPS, 1960 TO 1970



Source: Illinois Department of Labor, *Illinois Labor Force Projections for 1970*.

The Armour Research Foundation has submitted its first interim report on a questionnaire survey of 1,500 manufacturers operating in the State, conducted as part of a comprehensive research project on the Illinois economy for the State Chamber of Commerce.

Firms responding to this survey numbered 722. Of these just over 51 percent reported that they anticipate an increase in employment at their plants over the next two years, and only 3 percent expected a decrease. Over 60 percent also expected to expand their physical facilities; some 71 percent indicated that they would enlarge production facilities at their present locations if they did expand, whereas nearly 29 percent said they would prefer another location. Labor shortages during the past year, particularly in the category of skilled personnel, were mentioned by 24 percent of the respondents.

Women Workers in Illinois

A number of developments reflect the growing importance of women in the labor force of Illinois. The number of women workers rose 58 percent from 1940 to approximately 1.3 million in 1960. In the United States, the female labor force rose 74 percent during the corresponding period.

In 1960, 36 percent of all Illinois women over 14 years of age were in the labor force, compared with 27 percent in 1940. For the nation the rate of participation in each of these years was roughly 2 percentage points lower.

Of the total labor force in Illinois in 1960, 32.7 percent were women; the proportion in 1940 was 25.4 percent. Comparative figures for the United States were 32.1 percent and 24.3 percent respectively.

These figures indicate that despite the fact that the percentage increase of women in the national labor force exceeded that in Illinois, the State since 1940 has, on the average, provided more extensive job opportunities for women.

In 1960, only 37 percent of the working women in Illinois were under 35 years of age, whereas 61 percent were under 35 in 1940. In 1960 the largest groups (approximately 23 percent each) were in the 35 to 44 and 45 to 54 age brackets.

Six industry groups accounted for over 80 percent of the employed women in Illinois in 1960. These were manufacturing (25 percent); retail trade (19 percent); service (17 percent); education (9 percent); finance, insurance, and real estate (6 percent); and hospitals (6 percent).

Projected Changes in Occupational Groups

Important changes will occur in the occupational distribution of employed persons in Illinois between 1960 and 1970, according to a recent report, *Illinois Labor Force Projections for 1970*, issued by the Illinois Department of Labor.

Assuming that the same occupational changes will occur from 1960 to 1970 as occurred from 1950 to 1960, the groups which will expand most rapidly are professional and technical, clerical, sales, and service (see chart).

For women workers the occupational groups expected to show the greatest percentage increases are service (42 percent), professional (40 percent), and clerical (36 percent).

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1963

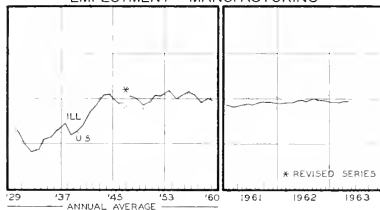
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$41,757 ^a	1,353,185 ^a			\$24,270 ^a	\$19,105 ^a
Percentage change from	Apr., 1963	+5.1	-0.5		+3	+0.8	-5.0
	(May, 1962)	+26.5	+5.1		-1	+2.4	+15.1
NORTHERN ILLINOIS							
Chicago							
Chicago		\$25,538	973,176			\$22,516	\$16,309
Percentage change from	Apr., 1963	+22.8	-1.5		+4	+0.5	-5.8
	(May, 1962)	+25.7	+5.4		0	+2.0	+14.6
Aurora							
Aurora		\$ 1,018	n.a.		n.a.	\$ 94	\$ 207
Percentage change from	Apr., 1963	-51.9				+1.2	-4.5
	(May, 1962)	+53.8				+8.9	+17.1
Elgin							
Elgin		\$ 2,192	n.a.			\$ 60	\$ 158
Percentage change from	Apr., 1963	+126.5			n.a.	+0.6	+17.2
	(May, 1962)	+421.4				+7.7	+6.1
Joliet							
Joliet		\$ 1,876	n.a.			\$ 108	\$ 123
Percentage change from	Apr., 1963	+71.9			+8	+8.9	-16.4
	(May, 1962)	+74.6			-6	+11.6	+16.0
Kankakee							
Kankakee		\$ 674	n.a.			n.a.	\$ 82
Percentage change from	Apr., 1963	+162.1			n.a.		-7.3
	(May, 1962)	+219.4					+12.2
Rock Island-Moline							
Rock Island-Moline		\$ 1,491	30,653			\$ 144 ^b	\$ 210
Percentage change from	Apr., 1963	-36.6	+5.7		n.a.	+0.6	+9.0
	(May, 1962)	+37.6	+6.0			+11.3	+17.4
Rockford							
Rockford		\$ 3,008	60,570 ^c			\$ 226	\$ 300
Percentage change from	Apr., 1963	+19.4	+0.2		+5 ^c	+7.1	-1.8
	(May, 1962)	+52.9	+1.6		-4 ^c	+5.9	+20.8
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 487	14,514			\$ 102	\$ 162
Percentage change from	Apr., 1963	-46.6	+1.3		n.a.	-2.1	-8.6
	(May, 1962)	-76.1	+11.1			+6.4	+18.4
Champaign-Urbana							
Champaign-Urbana		\$ 579	19,097			\$ 105	\$ 180
Percentage change from	Apr., 1963	+8.7	-1.7		n.a.	+11.1	+1.4
	(May, 1962)	+38.6	+9.0			+10.2	+32.2
Danville							
Danville		\$ 181	24,733			\$ 59	\$ 92
Percentage change from	Apr., 1963	-25.1	+24.2		-12	+5.0	+5.8
	(May, 1962)	-35.3	+29.0		-6	+8.3	+21.3
Decatur							
Decatur		\$ 574	39,249			\$ 137	\$ 162
Percentage change from	Apr., 1963	-51.9	+3.1		+6 ^c	+7.3	-2.5
	(May, 1962)	-1.6	+13.8		-2 ^c	+11.7	+20.8
Galesburg							
Galesburg		\$ 147	11,124			n.a.	\$ 58
Percentage change from	Apr., 1963	-93.2	-1.4		n.a.		+17.3
	(May, 1962)	-20.6	+8.5				+15.5
Peoria							
Peoria		\$ 595	65,236 ^c			\$ 297	\$ 351
Percentage change from	Apr., 1963	-27.9	-1.1		+1	+3.3	-6.1
	(May, 1962)	-33.0	+1.1		-5	+12.0	+11.1
Quincy							
Quincy		\$ 746	13,451			\$ 65	\$ 95
Percentage change from	Apr., 1963	-46.1	+1.8		n.a.	+4.6	+10.2
	(May, 1962)	+311.0	-4.1			+7.6	+22.2
Springfield							
Springfield		\$ 1,623	43,987			\$ 159	\$ 416
Percentage change from	Apr., 1963	+26.5	+2.0		+3 ^c	+1.2	+5.2
	(May, 1962)	-11.3	-7.9		-5 ^c	+8.7	+20.1
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		n.a.	16,511			\$ 138	\$ 93
Percentage change from	Apr., 1963		+1.9		n.a.	+0.6	+7.9
	(May, 1962)		-2.8			3.3	+35.9
Alton							
Alton		\$ 217	26,755			\$ 59	\$ 42
Percentage change from	Apr., 1963	-70.1	+5.3		n.a.	+14.8	-8.3
	(May, 1962)	-70.9	+5.6			+1.9	+24.6
Belleville							
Belleville		\$ 812	14,130			n.a.	\$ 64
Percentage change from	Apr., 1963	+10.4	-0.6		n.a.		-8.6
	(May, 1962)	+8.8	+8.8				+14.8

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue Data for April, 1963, not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending May 24, 1963, and May 25, 1962.

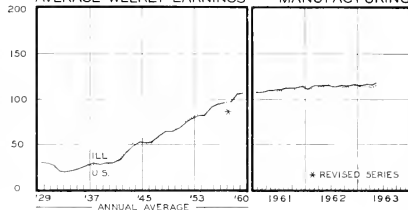
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

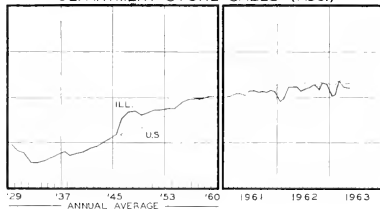
EMPLOYMENT - MANUFACTURING



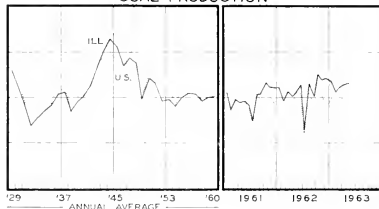
AVERAGE WEEKLY EARNINGS - MANUFACTURING



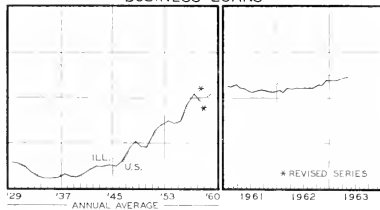
DEPARTMENT STORE SALES (ADJ.)



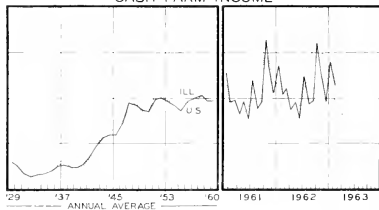
COAL PRODUCTION



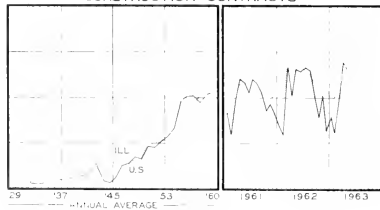
BUSINESS LOANS



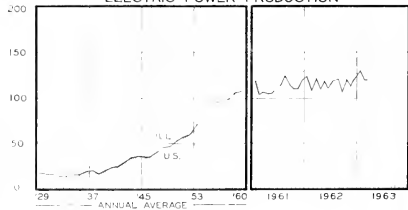
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



30.5
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SEP. 27, 1963

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 20

SEPTEMBER, 1963

NUMBER 8

HIGHLIGHTS OF BUSINESS IN AUGUST

The major production indicators in August showed generally small changes from July, with the obvious exception of motor vehicle output, which was drastically reduced as model changeovers took place. Steel production was still low as users worked off excess inventories, but a certain amount of optimism characterized expectations. The FRB index of industrial production fell 1 point to 125.6 (1957-59 = 100) after seasonal adjustment.

Unemployment fell below 4 million for the first time in 1963, dropping 465,000 to 3.9 million. Nonfarm employment, at 65.1 million, was substantially unchanged from the month before, but a decline of half a million occurred in the number of farm workers.

Department store sales, also adjusted, rose from July's 120 (1957-59 = 100) to an estimated 125, a new record. Preliminary figures indicate that total retail sales in August, \$20.8 billion after adjustment, were practically the same as in July; a drop in sales of durables was offset by a gain in nondurables, which reached a new record of \$14.1 billion.

Manufacturers and distributors added \$500 million to the value of their stocks during July, somewhat less than in June but more than in the earlier months of the year. Unlike June, when they accounted for three-fifths of the added value, durables made up only a fourth of the July advance in inventory values. Total book value at the end of July was \$101.3 billion, after seasonal adjustment, a record level.

New Construction Higher

New construction put in place in August was valued at an estimated \$6.1 billion, 1 percent more than in July and 4 percent above the August, 1962, figure. The July-August increase was about what would be expected for that time of year. Private construction accounted for \$4.2 billion of the total, about the same as in July. Sizable gains in nonresidential building categories, particularly commercial building, were about offset by declines in other groups, especially nonfarm residential construction. Public construction rose 5 percent between July and August, with nearly all subgroups showing gains.

Capital Spending as Planned

Business expenditures for new capital are proceeding about as expected earlier this year, according to the most recent Department of Commerce-SEC survey. Second-

quarter outlays were \$38.0 billion at a seasonally adjusted annual rate, slightly below those anticipated three months ago but still at a near-record level. Among durable goods producers, makers of motor vehicles and parts made the largest gains over the first quarter; and nearly all major categories invested more than they had during the corresponding quarter of 1962. In nondurables, shifts from the two earlier periods were minor. Of the other major industries, transportation companies showed the sharpest advances from the first quarter of 1963.

Spending plans for the second half are now well in hand. Manufacturers project capital outlays of \$15.85 billion and \$16.3 billion in the third and fourth quarters respectively, well above expenditures for similar periods last year. Three groups account for much of the gain — primary metal producers, motor vehicle makers, and chemical manufacturers. In the nonmanufacturing area, mining and nonrail transportation outlays will be about the same as in the second half of 1962; and investment by railroads, public utilities, and commercial and other firms will be higher.

Payments Position Worse

An improvement in our foreign trade balance in the second quarter was more than offset by an increase in net payments on nontrade accounts, so that the net deficit in the balance of payments rose from an estimated \$880 million in the first quarter (seasonally adjusted) to about \$1,320 million in the second. These figures included the changes in monetary reserves and freely usable dollar assets held by foreigners but excluded special government transactions.

Private capital outflows were an important factor in the payments deficit in both periods, rising from an estimated \$1 billion in the first quarter to more than \$1.5 billion in the second. The government in past weeks has taken one step and proposed another to try to reduce our international deficit. The Federal Reserve discount rate was raised from 3 percent to 3½ percent in an attempt to cut the outflow of short-term capital; and the Administration has proposed a tax on purchases of foreign securities by Americans. The maximum rate of the tax would be 15 percent on stocks and on other securities of at least 28½ years maturity. The tax, however, has been the subject of much criticism and may or may not come into effect.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Dilemma of the Big City

The postwar exodus of families from the cities of the North and East progressed as rapidly as houses were built for them in other places. Some migrated long distances—to California, Florida, and other states of the Far West and Southwest. Many more joined the movement to the suburbs, and the larger metropolitan areas everywhere swelled and sprawled outward, often engulfing nearby communities. Most of the suburbanites kept their jobs in the city, and since they preferred to drive to work, their cars swamped the city's streets and highways. For their families and others who had no need to make the daily trip back, TV offered some substitute for the experiences of city living.

The central cities, however, found replacements for most of those who left and remained the nerve centers from which the nation's business was directed. The newcomers were individuals and families who moved in from rural areas near and far. The long-range migrants in this group mostly moved from the deep South to the industrial centers of the North and East. Their social and economic status had been inferior, and generally remained low, though not so much so, and as a result, almost everybody seemed to improve his position. Even those who were left behind in the rural areas generally obtained increases in per capita income from the available resources and opportunities of acres with fewer people to support.

Those who moved to the newly built communities generally bought better houses than those they had occupied in the city. Those who moved into the houses deserted by the former city dwellers did not find them inferior to the homes they had abandoned in the fields. The latter fell apart in ruins, and vacancies did not increase much anywhere, because the housing enumerators wrote the dilapidated hovels out of the country's housing supply. All the moving about thus played a part in the great housing boom of the postwar period, and it had a special role in remaking the character of the cities.

Hollow Cities

Gone to the suburbs are the city's upper middle classes. They are, on the whole, the better-educated people who hold the more desirable positions and earn the higher incomes. Those who moved in to replace them are comparatively untrained, lower income earners, less con-

cerned with social conventions, and accustomed more exclusively to physical pursuits. Not all the former left, of course. Some chose to relocate in shining towers in which they could isolate themselves from the city's turbulence, and others attempted to build barriers against any invasion of staid, old neighborhoods, a practice to which recent racial disturbances attest. It is said of TV programming that the commercials are aimed at selling methods of self and home decoration to the suburbanites, and the entertainment is geared to teaching methods of hoodlum violence to the slum dwellers.

The city's streets are still crowded—though often only by day. Only if the city has enough hotels and attracts enough transients and entertainment seekers can it maintain a seemingly brilliant night life; otherwise its skyscrapers loom as darkened monuments for the departed. The difference between New York and Washington illustrates the point. Large sections of the latter are now composed of little more than office buildings and parking lots, and these areas die each day at the close of business. The bright night spots that remain open in most cities are too expensive to attract the lower income groups. The latter therefore have little reason to enter some central parts of the city at night, and a portion of each city's police force is assigned to making sure that those who do are not there as troublemakers.

The jamming of people into the slums was once a symbol of the city's ability to provide jobs and other means of progress for all. But now there are not jobs for the slum dwellers even in high prosperity. The new technology which dominates the labor market demands training and skills many never had a chance to acquire. The situation is symbolized by the fact that the dropout from school remains unemployed—and if his skin is not white, the probability of unemployment is aggravated.

Thus the city, which was once the melting pot of America, has become the focal point of class struggle. The vitality of the old city reflected its role as the place where immigrants were absorbed and integrated into a new way of life. Today, the divisive forces of prejudice and restricted opportunity seek to hold the in-migrants as a group apart. Other groups, in the impersonal way of the city, voluntarily seal themselves off. Some of the excitement of city living persists but it is less spontaneous, more the product of contrivance and ballyhoo. The heart is missing from an organism that is all extremes and artificial display.

Failure of Attempted Solutions

Each generation seeks anew to resolve the problem of city blight. The last sought the answer in slum clearance. It was felt that if the physical blight could somehow be replaced with something new, the difficulty would be removed with the old structures and outmoded facilities that were demolished. Public housing was designed to make the main use of the cleared areas but some of the land was allocated to parks, schools, highways, and other community facilities. The people of the area were given new homes and other improvements and then left to reshape their lives in a desirable manner.

With some exceptions, the slum clearance projects did not work out as expected. The publicly built, high-rise apartments stood in carefully guarded isolation from the rest of the community. Often means tests were employed to ensure the exclusion of middle and higher class families. Occupants whose roots were close to the soil did not

(Continued on page 8)

THE EARTHMOVING EQUIPMENT INDUSTRY

As late as the 1930's, earthmoving for construction purposes was characteristically a question of shovels, carts, horses and mules, and the labor of thousands of workers. Today, a comparative handful of men can shift millions of cubic yards of earth with ease as a result of changes in earthmoving equipment.

The Caterpillar Tractor Company of Peoria is directly descended from the inventor of the crawler tractor (Holt in 1904), but it has gradually shifted the emphasis from agricultural applications to earthmoving construction work. The really big impetus came through World War II, and soon after this it became apparent that there was a significantly rising demand for such equipment. The situation proved attractive to some large industrial organizations, and during the early part of the 1950's, Allis-Chalmers, Westinghouse Air Brake, and International Harvester bought up smaller companies, followed a little later by Deere and Company.

The leading companies in the industry now have manufacturing plants in Illinois which build over 75 percent of the total domestic and export annual sales of the nation. Last year this was approximately a billion-dollar business for the State, with Caterpillar taking about three-fourths.

The benefits are well distributed—both by virtue of the location of the plants and by widespread purchasing elsewhere, particularly in the Chicago area. (These companies are, of course, involved in other products, but the references here are to earthmoving equipment only.)

The Industry in Illinois

The main Caterpillar plant is at Peoria, with others in Aurora, Decatur, Joliet, and Moline. The crawler tractor is the most important product for Caterpillar, for International Harvester from its Chicago works, and for Allis-Chalmers at Springfield. This last company has built an exceptionally large twin-engined unit of 770 horsepower, twice the usual maximum, and has fitted a tractor-shovel with remote radio control to work in hazardous areas.

The companies also produce the more recently competitive rubber-tired tractor units, L-II at Libertyville and A-C at Deerfield. A wide range of attachments and hydraulic bucket loaders are offered. Deere and Company manufactures similar attachments at Moline, for tractors built out-of-state.

The scraper is used in earthmoving to scoop up earth, transport it, and then dump it. Caterpillar produces scrapers of truck (unheaped) capacities up to 40 cubic yards, with power units fore and aft giving 785 horsepower. LeTourneau-Westinghouse of Peoria offers a Tournapull of 475 horsepower which can haul either a 25-yard scraper or a rear dumper. Auxiliary pushing by tractors is usually needed for loading, but the Moline works of Deere manufacture a smaller scraper which self-loads by a series of motor-driven elevating blades.

Graders—which finally smooth the earth—are built by Caterpillar, and by Allis-Chalmers at Springfield. The

most important product for LeTourneau is their off-highway truck, which can carry up to 65 tons, or 90 tons as a semitrailer; and Caterpillar has now entered this field with a 35-ton unit. The diesel engines for earthmoving equipment form a significant part of their total value; and Caterpillar, Allis-Chalmers, and International Harvester produce them in Illinois at Peoria, Harvey, and Melrose Park respectively.

Barber-Greene is a leader in a more specialized area. Ditchers are built at DeKalb, with a crawler-mounted unit experimentally equipped with an automatic control which maintains a predetermined ditch grade. Portable and fixed conveyors are made in Aurora to carry up to 33 tons of material per minute over several miles and over grades of up to 25 percent.

Exports and Foreign Operations

Nearly half of the sales are in exports, with Illinois products going to almost every country in the free world. Caterpillar is at present supplying equipment in Pakistan for a dam involving the largest earthmoving contract ever awarded. Significant sales have also recently been made in Panama, Ghana, the United Arab Republic, and Liberia. Allis-Chalmers now has large fleet orders from Turkey, Brazil, and Vietnam.

One problem of this increasing overseas market is keeping United States products competitive with those made elsewhere. To offset rising United States costs, to meet growing foreign competition, and to provide closer association, some investments have been made in foreign plants. Among them, these companies do some manufacturing in the United Kingdom, Italy, France, the Netherlands, Australia, Brazil, Japan, South Africa, Mexico, and Canada. Also essential to overseas sales is the fast world-wide delivery of spare parts when required, often into remote areas.

The Future

The industry is now highly competitive, highly organized, and highly efficient. The over-all trend is steadily upward, and companies are commonly experiencing annual sales increases of 10 percent or more. The costs of earthmoving work are tied to the characteristics of the equipment used—capacity, speed, cycle time, capital costs, downtime, labor required—and are so complex on large projects that mathematical computer programming is even being offered as a customer service.

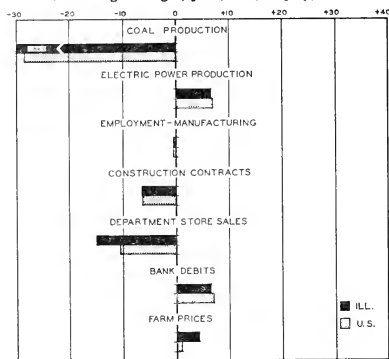
There is some difference of opinion as to the future of the industry. Some feel it will be very steady, while others point to the durability of the products and their prices (tractors up to \$50,000 and scrapers to \$120,000) as potential sources of difficulty. Perhaps two ways to assure continued sales are the leasing or credit arrangements which are now being offered. In fact, however, the national and international demand is so great that if these Illinois plants can maintain their technological, price, and service leads, the future prospects are good.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, June, 1963, to July, 1963



* Not seasonally adjusted.

ILLINOIS BUSINESS INDEXES

Item	July 1963 (1957-59 = 100)	Percentage change from	
		June 1963	July 1962
Electric power ¹	129.9	+ 6.7	+ 9.5
Coal production ²	71.5	-39.7	+11.0
Employment—manufacturing ³	98.8	- 0.4	+ 0.9
Weekly earnings—manufacturing ⁴	118.7 ^a	- 0.9	+ 4.3
Dept. store sales in Chicago ⁵	114.0 ^b	- 5.0	+ 4.6
Consumer prices in Chicago ⁶	106.0	+ 0.8	+ 1.4
Construction contracts ⁷	129.3	- 6.4	- 3.3
Bank debits ⁸	154.3	+ 6.5	+15.3
Farm prices ⁹	100.0	+ 4.2	+ 2.0
Life insurance sales (ordinary) ¹⁰	126.9	+ 0.0	+11.0
Petroleum production ¹¹	97.8	+ 3.6	- 3.6

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bd.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

* Preliminary. ^a Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	July 1963	Percentage change from	
		June 1963	July 1962
Personal income ¹	464.3 ^a	+ 0.4	+ 4.7
Manufacturing ²	59.0 ^{a, b}	+ 2.0	+ 7.2
Sales.....	430.8 ^a	+ 0.3	+ 3.5
Inventories.....	59.0 ^{a, b}	+ 0.3	+ 3.5
New construction activity ³	30.5	- 3.5	+ 6.3
Private residential.....	20.1	+ 5.5	- 0.8
Private nonresidential.....	20.3	- 0.5	+ 1.8
Foreign trade ⁴	22.4 ^c	-13.9	- 5.6
Merchandise exports.....	16.3 ^c	- 7.2	+ 0.6
Merchandise imports.....	6.1 ^c	-27.8	-19.1
Excess of exports.....	6.1 ^c	-27.8	-19.1
Consumer credit outstanding ⁵	65.4 ^b	+ 0.7	+10.1
Total credit.....	50.8 ^b	+ 1.1	+11.3
Instalment credit.....	40.8 ^b	- 1.3	+ 7.1
Business loans ⁶	27.7 ^c	- 2.8	- 1.7
Cash farm income ⁷	27.7 ^c	- 2.8	- 1.7
Indexes (1957-59 = 100)			
Industrial production ²	127 ^a	+ 0.6	+ 6.0
Combined index.....	127 ^a	+ 0.2	+ 7.2
Durable manufactures.....	127 ^a	+ 1.0	+ 4.5
Nondurable manufactures.....	111 ^a	+ 1.6	+ 4.6
Minerals.....	111 ^a	+ 1.6	+ 4.6
Manufacturing employment ⁴	100 ^a	+ 0.1	+ 0.6
Production workers.....	100 ^a	+ 0.1	+ 0.6
Factory worker earnings ⁴	102	- 0.5	+ 0.2
Average hours worked.....	115	0.0	+ 2.9
Average hourly earnings.....	117	- 0.5	+ 3.2
Average weekly earnings.....	143	- 6.3	+10.1
Construction contracts ⁵	120 ^a	0.0	+ 5.3
Department store sales ⁶	107	+ 0.5	+ 1.5
Consumer price index ⁷	107	+ 0.5	+ 1.5
Wholesale prices ⁸	101	+ 0.4	+ 0.3
All commodities.....	97	+ 2.0	+ 0.3
Farm products.....	102	- 0.2	+ 1.4
Food.....	101	+ 0.2	+ 1.1
Other.....	101	+ 0.2	+ 1.1
Farm prices ⁹	101	+ 1.0	+ 2.0
Received by farmers.....	107	+ 0.9	+ 2.0
Paid by farmers.....	79 ^d	+ 2.6	0.0
Parity ratio.....	79 ^d	+ 2.6	0.0

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for June, 1963, compared with May, 1963, and June, 1962. ⁹ Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1963					1962
	Aug. 31	Aug. 24	Aug. 17	Aug. 10	Aug. 3	Sept. 1
Production:						
Bituminous coal (daily avg.).....	thous. of short tons. 1,613	1,592	1,564	1,575	1,528	1,459
Electric power by utilities.....	mil. of kw-hr. 18,181	18,082	18,053	18,713	18,607	17,088
Motor vehicles (Wards).....	number in thous. 63	43	30	58	130	50
Petroleum (daily avg.).....	thous. bbl. 7,635	7,667	7,661	7,634	7,622	7,266
Steel.....	1957-59 = 100. 94.7	94.5	93.5	93.8	95.7	89.8
Freight loadings.....	thous. of cars. 583	595	577	560	558	583
Department store sales.....	1957-59 = 100. 126	117	113	106	104	116
Commodity prices, wholesale:						
All commodities.....	1957-59 = 100. 100.4	100.4	100.4	100.3	100.3	100.5 ^a
Other than farm products and foods.....	1957-59 = 100. 100.7	100.7	100.8	100.8	100.6	100.6 ^a
22 commodities.....	1957-59 = 100. 91.9	92.1	92.8	93.4	93.1	92.2
Finance:						
Business loans.....	mil. of dol. 35,210	35,264	35,198	35,159	35,014	33,442
Failures, industrial and commercial.....	number. 247	275	287	264	238	282

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for August, 1962.

RECENT ECONOMIC CHANGES

Housing Starts Decline

Construction was begun on 144,500 housing units in July, 1963, compared with 155,300 in June and 140,000 in July, 1962. Privately owned housing starts totaled 143,300 units in July, down almost 6 percent from the June total but 5 percent above the number of units started in July, 1962. On a seasonally adjusted annual basis, July private starts fell 3 percent from the June level.

These data appear in the recently revised series issued by the Department of Commerce using new seasonal adjustment factors. The revisions generally raise the totals recorded in the winter months and lower those recorded during the spring and summer months.

Interest Rates Increase

The level of interest rates on all types of government securities gradually moved upward during the first eight months of this year. This rise has been due to an increasingly optimistic economic outlook and anticipation of augmented Treasury borrowing during the remainder of the year.

In the long-term market, government securities continued leveling off around the 4 percent rate, as indicated in the chart. Other types of long-term securities showed varying trends. The yields on high-grade state and local government bonds increased, those on lower-grade state and local and high-grade corporate issues remained fairly steady, and those on lower-grade corporate bonds and residential mortgages decreased.

The yield on short-term Treasury bills was fairly stable during the first half of the year but following the increase in the discount rate in July it rose to the current yield of 3.24. Any potential downward movement in short-term rates that might have been anticipated earlier in the year was offset by monetary measures, increased

bank demand for long-term issues, and the gain in outstanding negotiable time certificates. In addition the expectation on the part of investors that government authorities would not permit short-term rates to fall greatly, because of the balance-of-payments problem, or to rise very much, because of continuing failure of the economy to reach full employment, helped to stabilize the yield.

Expenditures for Food

Per capita expenditure on food during the first quarter of this year rose to a seasonally adjusted annual rate of \$398, almost the same as in the last quarter of 1962 but 2 percent above that recorded a year earlier. Price changes were responsible for most of the increase.

During 1962 consumers spent an average of \$394 on food items. This reflected an 11 percent increase over the decade since 1952, about half of which was due to a rise in the price of food. Other reasons for the increase have been the use of more expensive foods and additional marketing services. However, the proportion of disposable personal income spent on food has continued to decline over the last decade. Whereas in 1952 about 23 percent was spent for food, the proportion has now fallen to only 19 percent. Decreases were regular year by year, except in 1955 and 1958. In comparison, consumer expenditures on other goods and services have risen to \$1,511 per person since 1952, giving effect to gains averaging 4.5 percent per year. However, only a sixth of this total can be attributed to price increases.

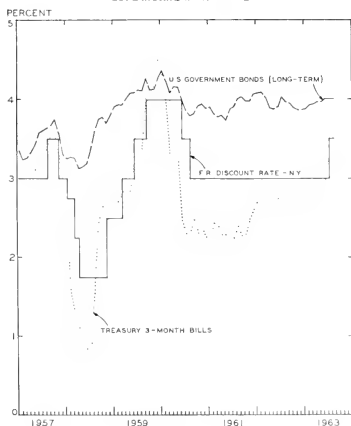
Corporate Depreciation Allowances

Corporate depreciation allowances totaled \$27.7 billion during 1962. Approximately \$2.4 billion of the \$4.1 billion increase from 1961 can be attributed to the use by corporations of the new guidelines for depreciation issued by the Treasury Department last year. As a result of the higher depreciation claimed by companies under these guidelines, the amount received by the Treasury in corporation income taxes fell \$1.25 billion. With an additional \$1.0 billion in investment tax credit claimed on new machinery and equipment, the total tax savings amounted to \$2.25 billion.

The largest relative additions to depreciation charges through use of the new guidelines were in the transportation and the manufacturing and mining groups, which claimed 17 percent and 14 percent respectively of all new depreciation charges. In manufacturing, the total sum of new depreciation taken by guideline firms was well in excess of the deductions claimed by non-guideline firms excluding aircraft and nonelectrical machinery companies. Such industries as primary metals, paper, chemicals, and stone, clay, and glass benefited most, and petroleum, nonelectrical machinery, and nonautomotive transportation equipment gained least from the new guidelines.

Of the investment tax credit total of \$1.0 billion, somewhat over 50 percent was taken by manufacturing and mining firms, an additional 15 percent each by the communications-public utility and the trade-service groups, and about 10 percent by transportation firms. Only about 8 percent of all corporations, mostly the smaller ones, did not make use of the new depreciation guidelines or tax investment credit. If the depreciation guidelines used had been the same last year as in 1961, corporate net profits would have reached \$5.4 billion, instead of only \$3 billion.

INTEREST RATES



Source: Federal Reserve Board.

RECENT MONETARY DEVELOPMENTS

PAUL T. KINNEY, Associate Professor, Orange State College

Especially in recent years, monetary indicators are confusing and give ambiguous signals. Whether the last three years is labeled as a period of credit ease or credit restraint depends on which of the monetary indicators is emphasized, for the period since mid-1960 has entailed substantial increases in available money and credit, significant shifts in the composition of available credit, and relatively stable, though rising, credit costs.

The battle continues over interest rates and monetary policy, with the current edge in favor of "flexible" policy, that is, higher interest rates. This is evident in the recent increase in Federal Reserve discount rates and by the sustained though moderate rise in interest rates generally. Currently rates are higher than at any time in the last three years, and further increases are indicated for the coming months.

Despite rising credit costs, the quantity of money and credit has expanded more during the last three years than at any other time in recent history. Member bank loans and investments in 1962 increased by nearly 9 percent and have continued to expand rapidly during the first half of this year. Banks have not been under pressure to borrow reserves, and even with the substantial rise in bank credit, the net free reserve position of member banks has not changed materially since 1960.

Conflict of Policy Objectives

Presently the broad goals of monetary policy include stimulating employment, output, and economic growth; stabilizing prices; and bolstering the position of the dollar as an international reserve currency. General agreement prevails regarding the broad policy objectives; yet considerable controversy arises through differences in the priority attached to each goal.

Policies directed toward stimulating domestic economic activity require relatively low credit costs and an abundance of available credit to finance economic expansion. However, easy credit conditions are conducive to rising prices, and many believe that easy credit markets worsen the balance-of-payments difficulties confronting the United States during recent years.

With relatively stable prices prevailing during the last three years, those who argue for more credit restraint now stress as paramount the need to strengthen the international position of the dollar and to take whatever steps are necessary to reduce the outflow of gold. Such views in their extreme form call for a return to the "discipline of gold" which, under present institutional arrangements, would entail a drop in bank reserves equivalent to gold sales by the United States Treasury and a consequent multiple contraction of bank credit. In essence such measures would shift the basic responsibility for the control of money and credit away from the Federal Reserve and to the whims of foreign central banks, whose primary interest lies elsewhere than in the well-being of the United States economy.

Currently more moderate views calling for credit restraint hold that higher interest rates and tighter money markets will induce more foreign investment in dollar assets and less capital exports to other countries. Recent Federal Reserve action appears consistent with these views.

In contrast, those arguing for easier credit conditions call attention to the insensitivity of domestic prices to

monetary measures and argue that the current United States balance-of-payments problems are structural rather than financial in nature, and that their correction or alleviation is not possible merely through the pursuit of a restrictive monetary policy. In fact, an unduly restrictive monetary policy may depress domestic economic activity, reduce incentives to invest, and increase the possibility of capital flight to other countries where current economic opportunities are better. The Fed also makes some concessions to this point of view.

Where policy concentrates on the level of credit costs and on the supply of money and credit, the pursuit of any one policy goal entails the neglect of other objectives. The dilemma requires a compromise between broad goals or a change in techniques, so that more selective measures may be taken to adjust the composition as well as the level of credit supply and costs. To this end, but with dubious results, the Fed has instituted measures designed to ease capital market conditions while tightening money market conditions.

Relatively easy capital markets stimulate private investment expenditures and indirectly foster more employment, output, and growth. Relatively tight money markets, on the other hand, discourage the exchange of dollars for gold or foreign assets and thereby improve the balance-of-payments position. Supposedly the best monetary compromise is achieved by facilitating capital expenditures through easy long-term credit conditions and simultaneously restricting the availability and increasing the cost of short-term funds.

Adapting Policy to Multiple Objectives

With decidedly limited powers the Fed can operate in both ends of the credit market to induce some change in the structure of rates as well as in the composition of credit. Direct action in this regard operates through shifts in the maturity composition of the Federal Reserve System's portfolio of government securities. In the simplest case, the Fed buys long-term bonds and sells bills or other short-term securities. In so doing the Fed encourages a relative increase in short-term rates and increases the supply of longer-term funds relative to short-term funds. However, the Fed would have to make substantial maturity shifts in order to exert any appreciable influence on the structure of rates or the composition of credit.

Indirectly the Fed can achieve the same results by inducing banks to alter the structure of their assets. Appropriate steps may be taken to encourage banks to acquire longer-term securities and generally riskier assets, such as long-term business loans and mortgages on real estate.

The key to the Fed's control over the composition of member bank assets lies in its power to determine the maximum rates which member banks may pay on their time and savings deposits. By raising these rate ceilings and by encouraging relatively more time and savings deposits, the Federal Reserve may induce appreciably higher bank operating costs and reduce the banks' need for liquidity reserves. Consequently banks will have more funds to lend and invest, and more incentive to seek higher-yielding assets in order to cover the added costs of bank funds.

In addition to required reserves, banks need liquidity

reserves to finance changes in loan demand and fluctuations in deposits. With a relative increase in time and savings deposits, deposit variation generally declines, and the extent and timing of deposit drains can generally be predicted with more precision. Thus liquidity needs—over and above required reserves—fall as a consequence of a shift in the bank's deposit structure toward a higher proportion of time and savings deposits. Stability of these deposits may be further enhanced by employing graduated interest rates which impose penalties for premature withdrawal of funds.

Most banks are guided by a "segregated funds" doctrine in the selection of their assets. This doctrine ties the composition of bank assets more or less mechanically with the structure of their liabilities (deposits). Thus, even in the absence of higher rates on time deposits, an increase in the proportion of time and savings deposits will induce banks to lengthen the maturity structure of their investments and to seek more term loans. The combination of higher operating costs, lower liquidity requirements, and prevailing principles guiding the selection of bank assets amplifies the impact of a rise in interest rates permitted on time and savings deposits held by member banks.

Directly and indirectly the Federal Reserve can affect the structure of credit, and to some extent it can vary the degree of ease in different credit markets. Recognition of these powers and their fuller use may lead to more desirable credit conditions. But such powers are very limited, and so far, their results have been of dubious value.

Changes in Money and Credit Since 1960

During the last three years, since the initial announcement of the Federal Reserve's technical goals regarding the structure of interest rates, there is little evidence that interest rates have behaved in the manner desired. Both long- and short-term rates have been relatively stable compared with earlier periods, but short-term rates have remained below the high levels reached in previous periods of credit restraint, and rates on longer-term government securities have remained above earlier levels except the peak of 1959-60. Following the decline from that peak, Fed policy has not brought about any major change in the structure of interest rates since mid-1960. However, rates have been much more stable than in earlier years.

Although interest rates have not followed the desired pattern, the Fed has taken action generally consistent with its interest rate objectives. It has made significant maturity shifts in its portfolio of United States government securities—especially for the period through 1962—and has encouraged appreciable changes in the composition of member bank assets.

Directly, in the three years 1960-62, the Fed expanded its holdings of securities by \$4.2 billion. Its holdings of short-term (under one year) securities declined by \$887 million, while it added \$775 million in securities with maturities of 5 to 10 years. The major increase (\$4,284 million) has been in the 1 to 5 year maturity range.

Since the beginning of 1963, however, the Fed has largely nullified its previous maturity shifts. With little change taking place in its holdings of over-5-year maturities, it has acquired \$3,749 million in short-term securities, and its holdings of 1 to 5 year maturities decreased by \$1,207 million. Although maturity shifts through 1962 were consistent with the Federal Reserve's stated objectives regarding interest rates, its action since the beginning of this year suggests that it may have reverted to an

earlier policy of confining open market operations to bills and similar short-term instruments.

One could argue for more drastic maturity shifts than those evident in the Fed's portfolio operations during recent years, but it is doubtful that even much more substantial maturity shifts would have accomplished stated interest rate objectives.

Indirectly, the Fed has pursued a policy which fostered substantial changes in the composition of bank assets. In 1962 the Fed raised time and savings deposit interest rate ceilings to a maximum of 4 percent, for funds on deposit one year or more. This year the 4 percent ceiling was applied to time deposits of 90 days or more; but no further change was made regarding savings deposits. Following the 1962 increase in rate maximums, time and savings deposits increased by more than 25 percent and have continued to expand during 1963, but at a more moderate rate. With no appreciable change in demand deposits, this large increase in time and savings deposits reflects a fairly substantial shift in the composition of bank assets.

With the rapid rise in time and savings deposits since 1961, banks have made substantial investment in state and municipal securities and have expanded their commitments in term and real estate loans. Bank investment in United States government securities has not changed appreciably, but banks have made shifts toward longer maturities, especially in the 5 to 10 year maturity range. During 1962 and through March, 1963, commercial bank term loans secured by real estate and instalment paper increased by about 13 percent and their investment in municipals increased by nearly 32 percent. During the same period of time, total bank loans and investments increased only 8.3 percent, or at a much lower rate than the rise in term loans and longer-term investments.

Efficacy of Recent Monetary Measures

The monetary measures employed during recent years indeed seem to reflect a more sophisticated compromise between conflicting goals, but this does not automatically result in a substantial improvement in the efficacy of monetary policy. As for the domestic scene, monetary measures can at best assure availability of credit and can hold down its cost. This may or may not lead to more spending, depending upon profit and income prospects. As a further qualification, efforts to expand credit have a delayed reaction; they provide the means to expand, but the expansion may not occur until a time when the appropriate policy has changed to credit restraint. Recent bank acquisitions of longer-term securities have no doubt tended to ease capital markets to some extent, but in general, domestic economic conditions are not particularly responsive to monetary measures on the up side.

Just as monetary policy cannot induce material changes in the climate of domestic economic activity, there is very little that the Fed can accomplish to improve the international position of the dollar. Its current attempts to curtail capital exports by increasing interest rates affects only a small segment of the capital flows. Recent Federal Reserve estimates indicate that interest-sensitive capital flows presently are less than \$300 million, or less than 10 percent of the private capital component of the United States balance of payments. If foreigners are induced to hold larger balances here, it increases our ultimate vulnerability to withdrawals.

Credit restraint and higher interest rates affect the gold outflow only indirectly, since gold sales by the United States Treasury are restricted to foreign central

banks and other official agencies of foreign governments. Such sales occur in the normal course of adjusting the composition of a nation's international reserves, a process in which interest rate considerations play a rather insignificant role. Whether a foreign central bank prefers gold or dollar assets depends in part on the country's trade patterns, its needs for foreign exchange, and the prestige it attaches to gold. Fear of dollar devaluation could precipitate a clamor for gold, but limited changes in interest rates have little bearing on whether official reserves will be held in gold or dollars.

In view of recent developments, there is no basis for expecting any significant increase in economic activity attributable to easier credit conditions. At present available credit is still sufficient to meet any reasonable increase in the demand for loanable funds, although at increasing cost. Any major increase in employment, output, and economic activity would seem to be dependent upon more selective measures to reduce structural unemployment and upon tax incentives to increase private domestic expenditures.

While there is little reason to expect economic expansion through easier credit conditions, there is even less reason to expect any improvement in balance-of-payments problems through the Fed's recent and continuing efforts to raise short-term interest rates. Unfortunately present policy reflects a fallacious but popular view that the world's confidence in the dollar depends on the gold in Fort Knox rather than on the strength of our economy. Bolstering confidence in the dollar requires expansion of domestic investment opportunities and improvement in the competitive position of American exporters. Tighter money and higher credit costs are not in line with these objectives and probably will worsen rather than improve our balance-of-payments position.

Dilemma of the Big City

(Continued from page 2)

necessarily like living there, but they were trapped by the advantage of housing costs below anything they could obtain elsewhere, and perhaps also by having part or all of their subsidized rent paid by relief agencies. The projects were billed as "self-contained" communities but they turned out to be so closely confining as to defeat the aspirations of the occupants.

The projects were also billed as "low-cost" housing but structures of this kind, which could give the city a new, impressive look, were expensive. Their full cost could hardly be recovered by renting even if average middle-class families were sought as occupants. Necessary rents required payment of too high a portion of the family budget, and outlying houses could be purchased with little or no down payment at lower monthly rates.

If projects were designed for "open occupancy," they tended quickly to become all Negro, repeating the pattern of the older residential neighborhoods they had replaced. Even the least prejudiced whites sooner or later found that life in the Negro community was different enough from what they wanted to make them decide to take advantage of other alternatives. The Negroes came to command whole renovated areas, as they had whole slum neighborhoods, and they found the *de facto* segregation of this life as unsatisfactory as the intentional segregation which they had left behind them. The reconstructed area was too homogeneous and too completely dissociated from the rest of the city. The community as a whole

thus came to lack the unification necessary to make it a truly desirable place in which to live and work.

The New Planning

The narrow conception of the problem and many of the other deficiencies of the slum clearance approach are now widely recognized. Planners of the new generation are working in terms of ambitious programs that sometimes look toward the reconstruction of almost the entire city. Part of the goal is to improve conditions for those living in the city, part is to bring back, or bring in for visits regular enough to create a sense of belonging, the upper middle classes that are needed to support the city's museums, recreation centers, exposition halls, theaters, restaurants, and shops. Since satisfactory transportation is essential for this, the development of adequate transport facilities is often made a key feature of such plans. Many improvements have already been made, many more are in the making, but such programs in their entirety are the work, not just of years, but of decades.

Also widely recognized as a chief obstacle to the accomplishment of such programs is the fragmentation of local authority in the metropolitan areas. Outlying towns, like groups within the city, like to think of themselves as superior to their neighbors. School districts, sanitary districts, park districts, transport authorities, and other local units guard their independence and often consider themselves rivals of others whom they ought to join in common improvement programs. A broader organization of effort is clearly needed, and state governments have made some attempts to effect better cooperation over entire metropolitan areas as well as to aid broadly conceived plans in other ways. The federal government has also assisted by providing funds to facilitate the planning and financing of urban renewal projects. To avoid complicating the authority relations still further, it has refused to accept any direct role in carrying out the programs developed. This leaves the initiative to local or regional authorities, with the usual diversity of results, but in at least some places there is great promise of achievements that will stand as models for all.

Likely to be overlooked, however, is the need to solve the social problems of the community. The conditions for living cannot be satisfactory unless there is wide popular participation in determining what they shall be. From this point of view, it is not enough to create the physical attributes of a great city, not enough to provide satisfactory accommodations and transport for all who will live or work in it. The seething interaction of its citizens must hold some prospect of unification, of an ultimate socialization that will give reality to ideals of freedom and equality.

Instead, a new class struggle in which economic and racial distinctions are mingled is developing. On the low-income side, leadership is being assumed by the Negro, and his drive for human rights has become more militant. There is some tendency for whites to react belligerently. So a new crisis is threatened, one that could alienate the new groupings of city dwellers from each other for generations and render inconsequential all the reconstruction to be accomplished by plans now on the drawing board.

City administrations face some of their hardest decisions in attempting to deal with this problem squarely. Most of them have hardly a chance of achieving a reasonable solution without the help of federal efforts to reenergize the national economy so that expanding job opportunities will re-establish their cities as centers of progress for all.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Taxable Property Values

Real estate listed on local tax rolls in 1961 had a market value of \$1,000 billion, according to a report recently issued by the United States Department of Commerce. However, valuations assessed by local officials on taxable property totaled only \$282 billion. In a similar study made in 1956 local tax rolls showed officially assessed valuations to be \$210 billion on a market value of \$700 billion.

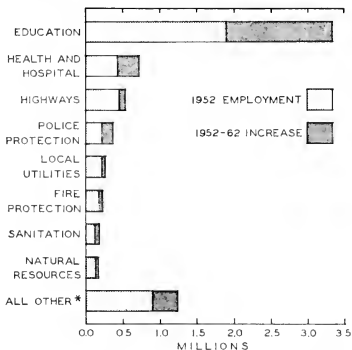
The assessment total of \$282 billion recorded in 1961 included more than 67 million individual pieces of real estate. Of this number, 55 percent were residential properties, 20 percent acreages or farms, 19 percent vacant lots, 4 percent commercial and industrial holdings, and the remaining 2 percent unclassified properties. Almost half of the properties were located in the nine states of California, Florida, Illinois, Indiana, Michigan, New York, Ohio, Pennsylvania, and Texas.

Government Employment

Governmental employment at all levels rose from 5.5 million in 1947 to 9.2 million in 1962, an increase of 68 percent. Today public jobs provide one-sixth of all nonfarm wage and salary employment. Additions to the number of government workers occurred mainly at state and local levels because of the demands for governmental services in education, sanitation, health, and other areas and because of the sharp population growth. State and local government employment as a proportion of total nonagricultural employment rose from 9 percent in 1952 to 12.6 percent in 1962, whereas federal employment decreased slightly from 4.8 percent to 4.2 percent.

The area of state and local government employment

GROWTH IN STATE AND LOCAL GOVERNMENT EMPLOYMENT, BY FUNCTION, 1952-62



* Includes public welfare, local parks and recreation, housing and urban renewal, finance, courts, and other agencies.

Source: U.S. Department of Labor, *Manpower Report*, July, 1963, p. 7.

which has shown the greatest advance both numerically and percentage-wise in the postwar period has been that of education. More than 50 percent of all local government employees and about 33 percent of state employees are engaged in educational activities. In 1952 only 1.9 million state and local workers were employed in education but by 1962 the number had reached 3.3 million, as indicated in the chart. This substantial advance was caused by a large addition in school age population, the increased length of time each student spends in school, and improved educational facilities. The next largest gain in state and local government employment occurred in health and hospital services, where nearly 300,000 employees were added, an increase of 66 percent. Department of Labor projections of future government employment indicate that public employment will rise by more than 50 percent in the next 15 years with nearly all of the growth occurring at the state and local levels.

Expenditure on Foreign Travel

Americans spent almost \$2.9 billion on foreign travel in 1962, an increase of 10 percent over 1961. Of this amount 84 percent went to foreign countries either as payment to foreign carriers for fares or as payment for expenses incurred abroad. The remainder was spent for the transportation services of United States international air carriers and shipping companies. Payments for foreign travel exceeded receipts from foreigners by \$1.4 billion in 1962, with the net outlay increasing \$150 million from 1961. During the first quarter of 1963 the amount spent on travel abroad rose \$20 million above 1962 to reach a record \$315 million. In addition, increased receipts from the rest of the world were counteracted by a decline in those from Canada, so that our travel receipts were held to the same level as in the first quarter of 1962.

The area of the world which benefited most from the expenditure of the American travel dollar in 1962 was Canada, which accumulated \$492 million, a 16 percent rise over 1961. Next was Mexico, which accumulated almost \$400 million. Europe and the Mediterranean area accounted for only \$600 million as lower per capita expenditures offset a 13 percent rise in the volume of travelers.

Multiple Jobholders

According to the most recent survey by the Bureau of Labor Statistics, a total of 3.3 million persons, 5 percent of those employed, were "moonlighters" who held more than one job at the same time in May of 1962. Among the individuals most likely to hold a second job were those whose primary job was farming, a protective service occupation (fireman or policeman), or teaching. The percentage of those employed holding more than one job has been fairly stable since 1956, ranging from 4.5 percent to 5.5 percent of total employment.

As of May, 1962, the number of dual jobholders whose primary occupation was farming was 850,000, 25 percent of all multiple jobholders and 15 percent of all farm jobholders. Among wage and salary workers, those in government employment (including postal workers, teachers, custodians, and protective workers) accounted for nearly 20 percent of persons working at two jobs. Wage and salary workers in manufacturing who had a second job amounted to only about 5 percent of all "moonlighters."

LOCAL ILLINOIS DEVELOPMENTS

Conciliation and Mediation Activities

Many potentially dangerous labor disputes are settled quietly in the State each year with very little notice in the press. The Illinois Conciliation and Mediation Service investigated and closed 910 labor-management dispute cases in fiscal year 1962, 3 percent fewer than in fiscal 1961, according to the Illinois Department of Labor.

Of these cases, 481 had been referred to the state service (under the provisions of the National Labor Relations Act of 1959) from the Federal Mediation and Conciliation Service, which deals primarily with disputes involving firms engaged in interstate commerce. In 26 of the cases thus referred to the state service, an investigation was made but an agreement was reached by the parties. A conciliator was assigned to act as an impartial third party in the collective bargaining process and assisted in settling disputes in 214 cases.

Direct requests to the state service were made in 413 cases; these included 362 for the assignment of a conciliator, 19 for arbitration by the service, and 32 for an employee-representative election. In addition, the department intervened in 16 work stoppages. Total disputes closed, by industry, were manufacturing, 254; construction, 160; retail trade, 186; transportation, 97; and service and miscellaneous, 213.

Foreign Trade Movements, Port of Chicago

Gains are expected in revenue from the St. Lawrence Seaway this year. Optimism regarding the 1963 shipping season arose from the substantial increases in goods imported and exported through the Seaway in 1962. Exports valued at \$877 million left the United States by way of Great Lakes ports in 1962, an increase of 17 percent over 1961. Imports amounting to \$540 million, or 19 percent more than in the preceding year, entered this country via

these ports. Tonnage gains for exports and imports were 15 percent and 33 percent respectively.

The port of Chicago handled exports valued at \$221 million and imports valued at \$169 million during the 1962 shipping season. Chicago's port is made up of two developed areas 13 miles apart—Navy Pier and other docking facilities at the mouth of the Chicago River near the downtown business district, and Calumet Harbor including the river and Lake Calumet in the heavy-industry area of the southeast. In addition to its 41 regular-service overseas steamship companies, Chicago is served by 21 trunkline railroads, 20 scheduled airlines, and the world's greatest concentration of trucking facilities.

Leading commodities exported via the port of Chicago in 1962 and their value in millions of dollars were corn, 41; machinery and parts, 27; soybeans, 26; railway locomotives and parts, 21; machine tools, 12; raw hides and skins, 10; edible animal oils and fats, 10; and all other, 74. Principal destinations were Canada, Germany, the United Kingdom, the Netherlands, India, and Italy.

Leading imports at Chicago and their value in millions of dollars were newsprint, 34; machinery and parts, 18; distilled spirits and wines, 17; rolled steel mill products, 13; auto trucks, 11; and all other, 76. Major sources of these imports were Canada, West Germany, the United Kingdom, the Federation of Malaya, and Japan.

Interstate Highway Construction

At the end of July, Illinois had more than 600 miles of interstate highways open to traffic and another 140 miles under construction, accounting for nearly half of the state's total allotment of 1,588 miles of the nation's 41,000-mile network of interstate highways scheduled for completion by 1970.

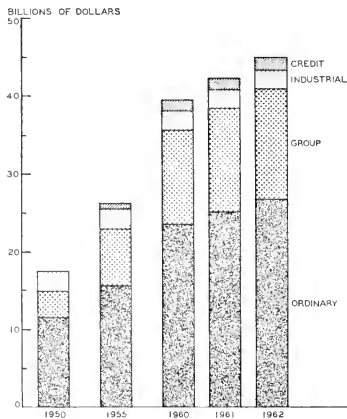
At the peak of the road-building season, work was under way in Illinois on the following interstate routes: 55 (Chicago to St. Louis), 27.4 miles; 57 (Cairo to Chicago), 31.6 miles; 70 (Indiana-Illinois state line to East St. Louis), 17.5 miles; 74 (Danville to Rock Island-Moline), 18.9 miles; 80 (Rock Island-Moline to Illinois-Indiana state line near Hammond), 36.4 miles; 90 (Chicago to Rockford), 1.1 miles; and 270 (interstate bypass in the East St. Louis area), 7.4 miles.

Life Insurance in Force

Illinois families owned \$45 billion of life insurance protection in force with legal reserve life insurance companies at the beginning of this year, nearly \$3 billion or 6.4 percent above the amount owned at the start of 1962. On a nationwide basis life insurance in force totaled \$676 billion, approximately \$47 billion or 7.4 percent over the previous year. Illinois ranks fourth among the states in life insurance ownership.

Ordinary life insurance, individually purchased, continued to be the major method of achieving protection, accounting for nearly \$27 billion or 59 percent of the total ownership in the State at the beginning of 1963. Group life insurance accounted for the second largest amount, \$14 billion or 32 percent of the total. Industrial life insurance, at \$2.3 billion, has changed only slightly over the past several years. The greatest gain during 1962, 14.7 percent, was made in credit life insurance, compared with a gain of only 4.1 percent for the previous year. The percentage of the total, however, increased only slightly, from 3.5 percent to 3.7 percent (see chart).

LIFE INSURANCE IN FORCE



Source: Institute of Life Insurance.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1963

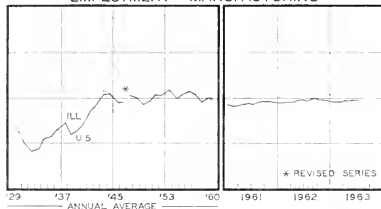
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$40,997 ^a	1,489,791 ^a			\$25,660 ^a	\$16,505 ^a
Percentage change from	June, 1963	+14.7	+4.9		-15	+6.5	+2.1
	July, 1962	-15.0	+8.7		+8	+15.3	+12.5
NORTHERN ILLINOIS							
Chicago							
Chicago		\$24,132	1,067,339			\$23,799	\$13,839
Percentage change from	June, 1963	+37.9	+1.9		-10	+6.7	-2.8
	July, 1962	-33.5	+8.5		+9	+15.5	+11.2
Aurora							
Aurora		\$ 745	n.a.		n.a.	\$ 99	\$ 192
Percentage change from	June, 1963	-48.8				-7.7	+1.0
	July, 1962	-29.6				+15.8	+16.7
Elgin							
Elgin		\$ 587	n.a.			\$ 66	\$ 138
Percentage change from	June, 1963	+53.0			n.a.	+6.2	-10.9
	July, 1962	+94.6				+8.1	+11.0
Joliet							
Joliet		\$ 716	n.a.			\$ 106	\$ 138
Percentage change from	June, 1963	+147.6			-10	-4.9	+9.3
	July, 1962	-72.0			+3	+8.4	+18.4
Kankakee							
Kankakee		\$ 223	n.a.			n.a.	\$ 77
Percentage change from	June, 1963	-50.6			n.a.		+0.9
	July, 1962	-2.2					+9.2
Rock Island-Moline							
Rock Island-Moline		\$ 1,184	33,386			\$ 146 ^b	\$ 211
Percentage change from	June, 1963	-35.6	-2.0		n.a.	-2.0	+7.2
	July, 1962	+17.7	+7.8			+11.3	+21.9
Rockford							
Rockford		\$ 1,708	63,405 ^c			\$ 240	\$ 270
Percentage change from	June, 1963	-23.6	+4.8		-11 ^c	-2.5	-4.7
	July, 1962	-6.1	+9.7		+2 ^c	+12.4	+23.6
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 1,908	14,273			\$ 117	\$ 156
Percentage change from	June, 1963	+17.8	-2.8		n.a.	+12.2	+0.7
	July, 1962	+229.0	+6.9			+11.6	+31.5
Champaign-Urbana							
Champaign-Urbana		\$ 3,044	22,330			\$ 119	\$ 149
Percentage change from	June, 1963	+394.2	+8.3		n.a.	+18.7	+6.1
	July, 1962	+869.3	+17.2			+22.1	+22.9
Danville							
Danville		\$ 224	20,675			\$ 62	\$ 89
Percentage change from	June, 1963	+2.5	-1.7		+2	+2.5	-3.9
	July, 1962	+11.9	+8.1		+1	+10.3	+27.0
Decatur							
Decatur		\$ 734	42,576			\$ 148	\$ 154
Percentage change from	June, 1963	-1.3	+2.3		-13 ^c	+1.9	+0.1
	July, 1962	+12.1	+10.5		+12 ^c	+19.5	+34.3
Galesburg							
Galesburg		\$ 303	11,595			n.a.	\$ 58
Percentage change from	June, 1963	+77.1	+1.2		n.a.		+28.0
	July, 1962	+128.2	+13.1				+18.8
Peoria							
Peoria		\$ 746	71,112 ^c			\$ 321	\$ 315
Percentage change from	June, 1963	-17.8	-0.2		-10	+5.7	-11.1
	July, 1962	-43.1	+6.5		+6	+13.9	+11.1
Quincy							
Quincy		\$ 211	17,594			\$ 65	\$ 84
Percentage change from	June, 1963	-38.2	+6.2		n.a.	+6.5	-10.3
	July, 1962	-53.5	+6.0			+9.5	+11.0
Springfield							
Springfield		\$ 3,497	61,223			\$ 172	\$ 402
Percentage change from	June, 1963	-39.5	+18.1		-4 ^c	+11.1	+8.9
	July, 1962	+301.0	+14.6		+7 ^c	+12.1	+27.0
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 366	20,003			\$ 141	\$ 124
Percentage change from	June, 1963	-44.2	+17.9		n.a.	+7.5	+47.1
	July, 1962	+212.7	+4.6			+6.5	+10.2
Alton							
Alton		\$ 425	28,189			\$ 59	\$ 44
Percentage change from	June, 1963	+23.2	+3.7		n.a.	+6.1	+3.1
	July, 1962	+93.0	+2.3			+9.6	+18.5
Belleville							
Belleville		\$ 246	16,092			n.a.	\$ 66
Percentage change from	June, 1963	+20.2	+8.9		n.a.		+2.2
	July, 1962	-4.4	+8.3				+15.0

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data for June, 1963, not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending July 19, 1963, and July 20, 1962.

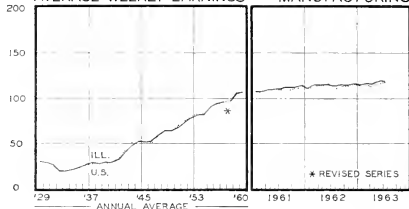
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

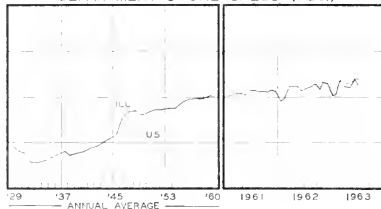
EMPLOYMENT - MANUFACTURING



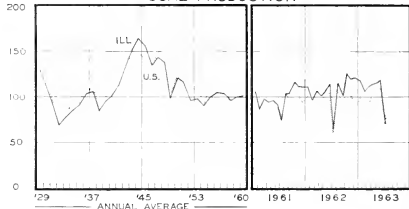
AVERAGE WEEKLY EARNINGS - MANUFACTURING



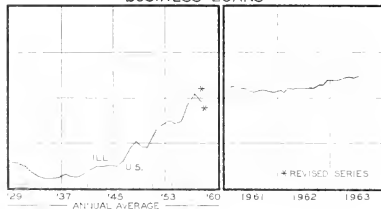
DEPARTMENT STORE SALES (ADJ.)



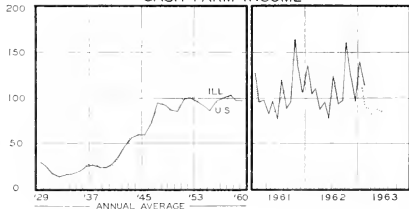
COAL PRODUCTION



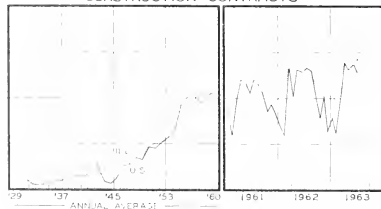
BUSINESS LOANS



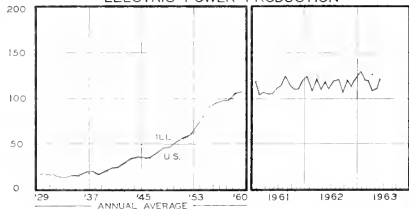
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 20

OCTOBER, 1963

NUMBER 9

HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Both pluses and minuses were showing among production indicators in September. Among the minuses were electric power production, petroleum, and paperboard. Railroad carloadings showed little change; coal output was up. The two major series showing gains over August were motor vehicles and steel. Auto output picked up rapidly after the model changeovers and totaled 504,525 for the month, 7 percent above September, 1962. Steel has been creeping upward since mid-August but has now reached a point where producers expect operations to remain fairly steady for a time. The FRB index of industrial production remained at 126 (1957-59 = 100) after seasonal adjustment.

Employment in September dropped about 1 million to 69.5 million as teenagers went back to school. Unemployment was down 340,000 to 3.5 million, the lowest point this year. The changes were those expected for the season. The Labor Department points out that the employment situation for men has steadily improved but that opportunities for women and teenagers have lessened. The unemployment rate for married men, 2.9 percent, was the lowest in more than six years.

Construction Outlays Steady

Spending on new construction in September totaled \$6.2 billion, virtually the same as in August but 7 percent more than in the year-earlier month. The lack of change from August to September was the expected seasonal pattern. Normal seasonals also prevailed in private construction, which totaled \$4.2 billion, about the same as the month before but 5 percent higher than a year ago. The small over-all change in private construction reflected divergent movements in the major subgroups—nonresidential building rose 3 percent and public utility construction was up 2 percent, but residential building, farm construction, and all other private expenditures were off by 2 percent, 8 percent, and 6 percent respectively. Public construction remained steady at \$1.9 billion, but was 11 percent above the September, 1962, level.

Instalment Debt Growth Slows Again

The expansion in instalment credit outstanding, which in July had risen to \$6.0 billion at a seasonally adjusted annual rate, slowed again in August to a rate of \$5.1 billion. Unlike earlier months when increases in credit on automobiles accounted for about half the over-all advance

in instalment debt, the addition to such credit in August amounted to less than a third of the \$425 million total. The gain of \$127 million for the month was the smallest in 1963; sales of cars dropped more than seasonally before the 1964 models were introduced. In contrast, the increases in the other two major categories of instalment credit were the largest recorded thus far in 1963: credit on consumer goods other than cars rose \$114 million, and personal loans outstanding were up \$167 million.

Inventories Unchanged

Stocks held by manufacturers and traders were unchanged between July and August after allowance for seasonal factors. In the earlier months of the year, additions averaging \$350 million a month had been made. Manufacturers held their inventories at just under \$59.0 billion; a \$100 million increase in wholesalers' stocks to \$14.5 billion was about offset by a cut in retailers' stocks to \$27.8 billion. The reduction by retailers reflected a decline in car dealers' inventories.

Sales by producers and distributors were off about 1 percent in August from the month before after seasonal adjustment. Nearly all of the decrease occurred at the manufacturing level, as sales by retailers and wholesalers remained roughly the same. Total sales for the month amounted to \$70.1 billion. Thus the inventory-sales ratio was 1.4, approximately the same as in July, but somewhat lower than the ratios of earlier months this year.

Industrial Stocks Hit New High

The Dow-Jones average of 30 industrial stocks finally rose to a new high of 737.98 on September 5, up over 200 points from the June 26, 1962, low of 535.76. Most of the market activity has been attributed to institutional and fund buying, with public trading still light.

Volume has been fairly heavy, partly as a result of profit-taking after the breakthrough. The market has also responded to such factors as the ups and downs of the tax-cut bill, the prospect of higher profits in coming months, and the expectation of higher year-end dividends.

It should be noted that the new highs actually reflect the strong showing by a relatively few issues, with many others remaining unchanged or declining. Steel and automotive stocks, especially, have been rising, often accompanied by fertilizer, broadcasting, sugar, paper, packaged food, and bank issues.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The Review will be sent free on request.

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The Consumer's Role

Consumers' expenditures have risen steadily through the postwar period. Even in the recession years, personal income was effectively supported against the decline, and consumers sustained their buying against the minor reduction in income that had not been prevented. As a result of this experience, there is some tendency to regard consumption expenditures as a continuing positive force in the over-all economic picture.

Behind the façade of stable progress, some significant changes in the consumer's position have been taking place. These hold implications of instability but leave the outcome somewhat in the dark.

Changes in Spending Patterns

Nothing that has happened changes the basic dependence of expenditures on income. In the immediate postwar years, everybody who had funds needed other things and was willing to draw on his liquid assets to make down payments on new homes or to buy the autos, household goods, and other products desired for satisfactory living. Saving was relatively depressed. Since 1950, however, the rate of saving has consistently been in the range of 6 to 8 percent of disposable personal income. This means that any particular kind of expenditure could have gained in relation to income only as some other kind lagged. For 1963, the rate of savings seems likely to hold close to the 7.6 percent realized in both 1961 and 1962.

In the initial postwar period, through 1950, durable goods took over the leadership. Subsequently, durable goods expenditures, especially autos, worked in combination with homebuilding to restimulate lagging economic activity in a series of relatively short spurts. The latest carried to the middle of this year.

Through most of this period, nondurable goods lagged, and expenditures for services showed a distinct upward trend. Since 1959, services have been advancing by roughly \$8 billion per year, and it has been almost a routine procedure in forecasting to project the same advance into the year ahead.

What is commonly overlooked in discussions of this point is that much of the increase in spending for services is artificial or derivative. In the first place, it is in this area that continuing pressure on prices has been felt, and price increases account for about 40 percent of the total advance since 1959. Secondly, the bulk of outlays in the

housing category are imputed rents, for which no actual transfer of funds occurs; they are merely added to both incomes and expenditures of homeowners to make the treatment of owned and rented houses comparable. In the category of personal business also, there are intangible items such as expenses of handling life insurance and "services rendered without charge by financial intermediaries" over which the consumer has no control. Furthermore, there are a number of other important charges of a nondiscretionary character that derive almost automatically from consumers' holdings of assets or debt; these include interest on personal debt, costs of household utilities, and repair costs on automobiles and TV sets. Together, these items and others of a like nature have been adding about as much to consumers' outlays for services each year as the price increases first noted.

In other words, the increases in service expenditures largely take forms which restrict the consumer's choice; often they represent fixed charges on income and reduce his ability to buy other things. Some analysts take account of this fact, but others fail to see that there is really little reason to glorify the bold, brave upward trend in service expenditures.

The Magic of Credit Expansion

The part of the increase in service expenditures connected with consumers' assets or debt does not include repairs of houses or interest on mortgages, since these are treated as business expenses rather than current consumption. Monthly repayments on mortgage and installment loans have been rising sharply and also represent a priority claim on current income. However, if one is to put these payments into the record, it is necessary to consider the sums borrowed as additions to spendable receipts and also to take account of all offsets to debt in the form of assets acquired with such funds.

Throughout the postwar period, consumers have been on a veritable binge of borrowing. Mortgage debt has expanded by \$10 billion or more each year during the last decade, and 1963 will probably add another \$15 billion or so to the total. Short-term consumer credit has added several billion more each year, and the increase will probably exceed \$5 billion in 1963. The total of debt in both forms now exceeds 60 percent of spendable receipts, this proportion being about double what it was 10 years ago. Most of this debt has been incurred in acquiring assets, of course, and since the prices of assets have risen or at least held up very well, little of it has proved embarrassing despite the rise in charges relative to current income.

Some concern has recently been expressed over the growing tendency to use credit for purposes other than acquisition of assets. Since 1956, installment credit extensions have exceeded the aggregate value of durable goods purchases, and the margin has tended to widen year by year. It will probably be close to \$10 billion in 1963. This means that installment credit is being used to finance spending for nondurable goods and services. You can hardly buy a 49-cent bottle of glue without being asked, "Do you wish to charge it?" When you buy an auto on time payments, you may also have to buy three kinds of insurance; credit insurance is the fastest growing form of life insurance. Mortgage loans likewise are being used for extraneous purposes, including travel or a daughter's wedding reception, and the excess of mortgages on one-to-four family houses over the value of new construction is also running about \$10 billion a year.

(Continued on page 8)

THE URBAN AREA TRAFFIC PROBLEM

The heart of this problem lies in our increasing population, which is displaying greatest growth in urban areas, in the continual additions which are being made to the number of vehicles on the roads, and in the increasing mileage operated by these vehicles. For Illinois it is considered possible that our total population will increase from the present 10 million to 19 million by the end of the century. Although much of the urban increase will be in the large metropolitan areas, it is expected that a number of other cities will increase their size to over 100,000 persons. If the entire Chicago area (including adjacent cities) is excluded, there are still 15 cities in the State at present with populations of over 40,000, and 6 with over 75,000. All of these may have populations of more than 100,000 by the year 2000. Nine of them are not now on controlled-access major highways but will be when the interstate system is finished, and this may well enhance their growth.

As this urbanization grows the many city, state, local, and other authorities who must deal with traffic problems increasingly find themselves faced with apparently insoluble situations which arise from the conflicting desires and needs of the groups within the urban area. Within one such group are those who need, use, or demand highway facilities, made up primarily of automobile users who enjoy mobility coupled with an illusion of very cheap transportation. On the other hand, downtown merchants often feel themselves the losers and want something done about it, while those who rely upon public transportation have the least influence and often get the least consideration. The central city authority is commonly trapped between rising costs for facilities, declining property values reducing tax revenues, and antipathy from the suburbs.

In Illinois, the most extreme forms of these problems are being experienced by greater Chicago and East St. Louis. What is done there serves both to improve the efficiency of these important areas of the State and also to provide a source of reference for other cities.

Planning in Illinois

It is axiomatic that neither planning nor technology can flourish without an adequate base. As early as 1906, Illinois led the way by instituting an extended highway vehicle count, and then in 1916 in Chicago the first count was made of vehicles entering the business district. In 1933, an expressway plan for Chicago was made, and most of its routes are still valid. The University of Illinois has a long history in transportation work, and together with Northwestern University, provides an unsurpassed range of educational and research facilities.

Started in 1955 was the most ambitious and sophisticated project to date—the multi-authority agency known as CATS (Chicago Area Transportation Study). The latest theoretical and mathematical methods were used to make a comprehensive economic study of the area, project it into the future, and determine travel demands and highway and transit network requirements.

In 1957 the State set up a Mass Transportation Commission to cover Illinois in general. It became apparent that the other cities of the State have problems which show common patterns. One of these is that there is a minimum population limit below which a regular bus service is not economical, and taxis must be used. But even if transit is necessary for the community, the common experience is that while revenues go steadily down, expenses cannot be made to follow proportionately.

Technical Achievements

Chicago's achievements in handling highway traffic are well known, and continual improvements and experimentation are being carried out. An example of this is the present experiment interconnecting vehicle-counting devices, computers, and traffic signals to assure maximum traffic flows. In collaboration with the CTA (Chicago Transit Authority), rail transit lines are being run in the medians of expressways to provide corridors of traffic movement which combine various modes at minimum cost.

In the field of transit operations, CTA also enjoys a high reputation. The rail transit system uses modern techniques such as the automatic setting of switches and signals by the trains themselves. In order to return some status to transit, new buses have been introduced, air-conditioned trains are being added, and experiments are being made with rail equipment which will accelerate up to 30 miles per hour in 10 seconds and run at 75 miles per hour. Looking to the future possibility of buses operating in "trains," a bus was recently equipped for guidance by the magnetic field from a cable buried along a roadway.

The Future

It is against this background that many Illinois cities are preparing plans. Such planning is being stimulated by a requirement—to be in effect in 1965—that cities over 50,000 must have truly comprehensive and cooperative master plans to be eligible for federal aid. This offers an opportunity either to bring about a rebirth of the centralized city or to create a new form of urban area; and one of the most important objectives will be to minimize the inevitable spending of hundreds of millions of dollars conducive to an efficient solution.

One of the worst difficulties lies in the time lag between survey and construction, which is commonly so long that the facility is inadequate before it is opened. Thus great importance should be attached to having cooperative and multi-authority agencies with adequate powers, a policy of continuing reappraisal, and the employment of really competent experts.

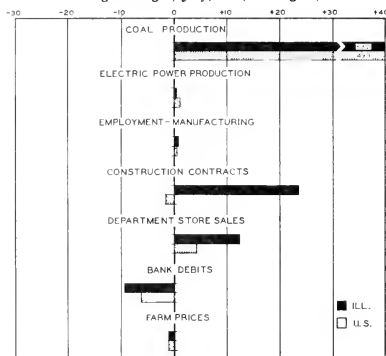
In any area, however, providing the final answers lies with the elected representatives and public officials, and whether or not they are prepared to break fresh ground. It seems quite possible, for instance, that eventually the nettle will have to be grasped, and street, highway, traffic, and transit made part of an over-all transportation department spending a pooled fund on whatever the efficient functioning of our growing urbanization demands.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS^a

Percentage changes, July, 1963, to August, 1963



^a Not seasonally adjusted.

ILLINOIS BUSINESS INDEXES

Item	Aug. 1963 (1957-59 = 100)	Percentage change from July 1963	Aug. 1962
Electric power ¹	130.4	+0.4	+7.5
Coal production ²	116.8	+63.2	+2.2
Employment-manufacturing ³	99.7	+1.0	+0.6
Weekly earnings-manufacturing ³	118.9 ^a	+0.2	+4.4
Dept. store sales in Chicago ⁴	128.0 ^b	+12.3	+15.3
Consumer prices in Chicago ⁵	105.7	-0.3	+1.2
Construction contracts ⁶	159.8	+23.6	+22.2
Bank debits ⁷	139.8	-9.4	+3.3
Farm prices ⁸	99.0	-1.0	-2.0
Life insurance sales (ordinary) ⁹	124.0	-2.3	+11.0
Petroleum production ¹⁰	98.1	+0.3	-6.6

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U.S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agency, Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Aug. 1963	Percentage change from July 1963	Aug. 1962
Annual rate in billion \$			
Personal income ¹	464.9 ^a	+0.2	+4.6
Manufacturing ¹			
Sales	424.8 ^a	-1.4	+6.3
Inventories	59.0 ^{a, b}	+0.2	+3.5
New construction activity ¹			
Private residential	29.2	-2.9	+3.4
Private nonresidential	20.9	+4.0	+0.8
Total public	22.6	+5.0	+6.7
Foreign trade ¹			
Merchandise exports	21.8 ^c	-2.5	+6.4
Merchandise imports	18.1 ^c	+10.9	+12.5
Excess of exports	3.7 ^c	-38.5	-15.9
Consumer credit outstanding ²			
Total credit	66.1 ^b	+1.2	+10.2
Instalment credit	51.4 ^b	+1.2	+11.3
Business loans ²	40.8 ^b	-0.1	+6.8
Cash farm income ³	34.1 ^e	+23.0	+2.7
Indexes (1957-59 = 100)			
Industrial production ²			
Combined index	126 ^a	-0.7	+5.2
Durable manufactures	126 ^a	-1.3	+5.8
Non-durable manufactures	127 ^a	+0.2	+4.5
Minerals	110 ^a	-1.3	+4.0
Manufacturing employment ⁴	100 ^a	-0.9	+0.4
Production workers			
Average hours worked	102	0.0	+0.2
Average hourly earnings	114	-0.8	+2.5
Average weekly earnings	116	-0.8	+2.8
Construction contracts ⁵	141	-1.6	+11.8
Department store sales ⁶	125 ^a	+4.2	+8.7
Consumer price index ⁷	107	0.0	+1.5
Wholesale prices ⁴			
All commodities	100	-0.2	-0.1
Farm products	96	-0.5	-1.3
Foods	101	-1.3	-0.6
Other	101	0.0	+0.2
Farm prices ⁸			
Received by farmers	100	-1.0	-1.0
Paid by farmers	106	-0.9	+1.9
Parity ratio	78 ¹	-1.3	-2.5

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b End of month. ^c Data for July, 1963, compared with June, 1963, and July, 1962. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1963					1962
	Sept. 28	Sept. 21	Sept. 14	Sept. 7	Aug. 31	Sept. 29
Production:						
Bituminous coal (daily avg.)	thous. of short tons... 1,638	1,647	1,651	1,622	1,613	1,461
Electric power by utilities	mil. of kw-hr... 17,285	17,478	18,107	17,239	18,181	16,023
Motor vehicles (Wards)	number in thous. 183	171	139	89	63	171
Petroleum (daily avg.)	thous. bbl... 7,578	7,598	7,559	7,575	7,635	7,355
Steel	1957-59 = 100... 100.9	100.0	96.8	95.3	94.7	94.8
Freight carloadings	thous. of cars... 620	596	596	494	583	597
Department store sales	1957-59 = 100... 119	119	122	108	126	116
Commodity prices, wholesale:						
All commodities	1957-59 = 100... 100.3	100.3	100.2	100.3	100.4	101.2 ^a
Other than farm products and foods	1957-59 = 100... 100.8	100.8	100.7	100.7	100.7	100.8 ^a
22 commodities	1957-59 = 100... 93.8	92.8	92.5	92.5	91.9	92.6
Finance:						
Business loans	mil. of dol. ... 35,944	35,864	35,498	35,348	35,210	34,063
Failures, industrial and commercial	number... 254	281	288	208	247	305

Sources: Survey of Current Business, Weekly Supplements.

^a Monthly index for September, 1962.

RECENT ECONOMIC CHANGES

Crop Production High

The Department of Agriculture estimates that this year's all-crop volume will reach 110 percent of the 1957-59 average. This compares with the previous record high of 108 in 1960 and 1962. Output of the farm feed grains—corn, grain sorghums, oats, and barley—is estimated to exceed 152 million tons for 1963. Leading the way is the record corn crop, which is expected to reach 4.0 billion bushels this year, almost 10 percent more than last year and 3 percent above the previous record set in 1960. The yield per acre of corn is estimated at 65.9 bushels, also a new record. Soybean production is estimated at 727.4 million bushels, 7 percent above the previous high. Output of the wheat crop is expected to total 1.1 billion bushels, 4 percent above last year, but because of record export demands, including sales to the Soviet Union, substantial amounts will be taken from the government's stocks this year.

Foreign Investments

The flow of United States private capital to foreign countries last year was \$3.3 billion. As indicated in the chart, this was down almost \$800 million from the record outlay of 1961. Reinvestment of earnings and appreciation of foreign security shares combined with the capital outflow to raise the 1962 value of private holdings abroad by almost \$5.0 billion to a total of \$59.8 billion.

During the first half of 1963 the net outflow of capital reached \$2.5 billion, a new record. The increased rate caused the Administration to propose a tax on the purchases of foreign securities in order to raise the cost to

foreigners of obtaining long-term capital in the United States financial market and to reduce the incentive for American citizens to invest abroad.

New direct investments by United States companies in their foreign branches and subsidiaries totaled \$2.8 billion in 1962, slightly more than in the previous year. Last year's addition to direct investment was composed of \$1.2 billion in retained earnings and \$1.6 billion in net capital outflow, raising the book value of direct foreign investments to \$37.1 billion. All of the increase in direct investments was accounted for by a sharp rise in new manufacturing investments, which totaled \$1.2 billion last year compared with about \$900 million in 1961.

Capital outflows and retained earnings were up in most areas, with the expansion greatest in Europe where manufacturing investment increased from \$3.7 billion in 1961 to \$4.8 billion last year. Investments in the transportation equipment industry (largely automobiles) accounted for a large part (26 percent) of the manufacturing total with continued growth in the European, Australian, and Latin American areas.

Growth in Automobile Registration

In 1962, 66 million passenger cars were registered in the nation, according to the United States Bureau of Public Roads. This total compares with 26 million in 1944 and 23 million in 1929. Thus during the last 18 years, total automobile registrations have increased 154 percent. However, since 1950 the rate of yearly growth has slackened appreciably. During the five years between World War II and the Korean conflict, the yearly growth rate was over 9 percent but during the next five years, ending with the record sales year of 1955, the average rate was 5.5 percent. Since 1955 the yearly rate of increase in new car registrations has totaled only 3.5 percent. This slowing of the automotive growth rate can also be seen in per capita terms. From 1945 to 1950 there was a yearly average gain of 16 cars per 1,000 population, but since 1950 the yearly average has fallen to only 7 cars per 1,000 population.

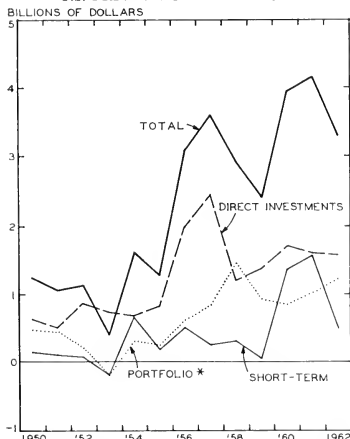
A significant circumstance affecting both the new and used car markets in recent years has been the greater proportion of families with more than one car. At the end of 1962, 14 percent of all family units had more than one automobile, compared with only 4 percent 10 years earlier. The increase in the number of family units was 6 million between 1952 and 1962, but the ownership of autos rose 18 million. The number of family units with only one car has remained in the 34 to 35 million range since 1957, which indicates that the number of families owning a car for the first time just about offset the number moving from one-car to multicar status.

Retail Sales in 1962

Total 1962 sales of all retail stores in the United States amounted to \$235 billion, \$17 billion more than in 1961. Sales of nondurable goods stores increased 6 percent over 1961 and sales of durable goods stores rose 11 percent.

Among the various kinds of retail businesses, the automotive group recorded the largest percentage and dollar increases over the 1961 level, rising 16 percent to \$42.8 billion. The general merchandise group showed an advance of 9 percent to \$27.2 billion, and the food group and eating and drinking places showed gains over 1961 of 4 percent and 5 percent respectively.

U.S. PRIVATE CAPITAL FLOW



* Net purchases of securities and loans with a maturity of more than one year.

Source: U.S. Department of Commerce, *Survey of Current Business*, August, 1963, p. 17.

A NATURAL RESOURCES POLICY?

HERBERT I. SCHILLER, Research Associate Professor

Critics and defenders of United States natural resources policy are agreed on one point. There is not now and there never has been a national, comprehensive natural resources policy for the country. Although such a policy was advocated by the early conservationists, the abundance of resources and advances in technology produced living standards so high as to discourage its development. Now, however, the pressures from the underdeveloped world for improved conditions, largely involving natural resource relationships with the developed economies, may result either in forcing changes in long-standing United States institutions or bring about massive collisions in the world economy.

The past record does show that a number of policies about selected resource matters have been formulated. Norman Wengert writes: "resource programs and policies have not been the result of grand ideological conceptions . . . instead [they] have grown out of the need to deal with specific, narrowly defined problems." (*The Annals*, November, 1962, p. 68.) A new study of United States resources declares: "We do not envision any single, monolithic Resource Policy, through the application of which all problems will be solved. Nor would we expect ever to find a single water policy or energy policy unless these are stated in such general terms as to be rather useless. Policies, like actions, tend to come in bits and pieces, never thoroughly consistent in their direction." (L. Fischman, J. Fisher, and H. Landsberg, *Resources in America's Future*, pp. 52-53.)

Supposing this to be an accurate evaluation, at least of the past, two questions may be worth considering. How are we to view the conservation movement that percolated throughout the administration of Theodore Roosevelt, and its offspring, conservation, which is still an active force in political affairs (note President Kennedy's "Conservation Tour" last month)? And, what prospects has a "bits and pieces" resource policy for effectively meeting the resource problems of contemporary society?

The Conservation Movement: 1890-1910

The rise of the conservation movement coincided roughly with and was no doubt influenced by the disappearance of the frontier. Thinking changed when it was no longer possible to lay claim to an endless stock of fertile land and bountiful timber, animal, and subsoil resources.

Contributing also to its growth were the evidences of massive resource waste which accompanied, perhaps unavoidably, the construction of the country's industrial base in the preceding quarter century. This waste was strictly excoriated by conservationists who viewed the nation's resources as fixed and limited, plentiful for the moment perhaps, but subject inexorably to total exhaustion. They believed this was especially true of energy minerals, which disappeared forever when consumed.

Leading the movement was a group whose training in the new, rigorous fields of science made them rebel at the inefficiencies and irrationalities of resource utilization surrounding them. They provided the rationale for comprehensive organization of the nation's resources. In their view, nature appeared as a precariously balanced environment of interdependencies, requiring the most careful and informed treatment by man. They were pioneers in studies of plant and animal food chains, the hydrologic

cycle, and the interrelationships of human beings and natural communities.

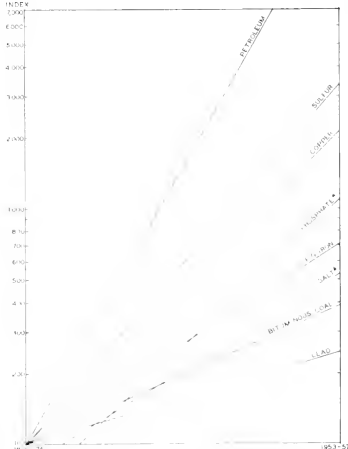
Implicit in this view of the environment, and widely advocated by many of the first conservationists, was the desirability and necessity of ordering nature on as large a scale as possible. They believed that the control of forests, large river basins, food chains, and population movements required a high level of governmental administration. In their judgment, local administrative units and private individual decision-making were totally inadequate. This view was clearly set forth as early as 1865 by one of our most distinguished thinkers of that period, George P. Marsh, in his book, *Man and Nature*.

The first conservationists emphasized scale of operations as a vital desideratum in achieving ambitious resource goals. The interdependencies of human and natural communities were carefully studied. Understanding the complexities and interrelationships that tied those systems together made them believe that controls had to be many-sided and all-embracing.

The Conservation Concept: 1910-1960

The essence of the early conservationism, its advocacy of unified handling of natural resource problems at the national level, was diluted gradually. Repeated warnings were not borne out despite soaring consumption and waste. In the half century after Theodore Roosevelt left office, the population of the country doubled, yet the per capita consumption of raw materials continued to rise. (See

PER CAPITA CONSUMPTION OF MINERALS



* 1884-88 base period.

* 1880-84 base period.

Source: Neal Potter and Francis T. Christy, Jr., *Trends in Natural Resource Commodities* (Baltimore: Johns Hopkins Press, 1962), p. 11.

accompanying chart.) The association of increased per capita consumption with a doubling of the total number of consumers pushed the absolute quantities of raw materials consumed to staggering levels. For example, petroleum consumption has soared from 173 million barrels in 1910 to 2,985 million barrels in 1957, iron ore from 55 million to 129 million tons, and copper from 375,000 tons to 1,239,000 tons over the same period. Under this massive wave of raw materials production, the admonitions of the conservationists about impending resource scarcity, and their recommendations for combating it, understandably went unheeded.

With the conception of over-all resource controls losing its attractiveness in an age of growing abundance, conservation after 1910 gradually came to be associated with the preservation and restoration of natural resources. Consideration of the esthetics of nature also received a larger emphasis. National parks, dams, wildlife sanctuaries, soil reclamation, and forest fire protection were tangible expressions of the new direction. In this more limited perspective, even the relatively laissez-faire national administrations of the 1920's are now regarded as having practiced conservation. Thus, Donald Swain concludes: "... the national conservation program did not deteriorate in the 1920's. It expanded and matured." (*Federal Conservation Policy, 1921-1933*, pp. 169-70.)

The 1930's marked a temporary return to a somewhat broader type of conservation activity. Impelled by the pressures of the Great Depression, numerous resource programs flourished, largely with governmental support. The national government, seeking means to stimulate the economy, found natural resource programs a logical outlet. With the appointment of the National Resources Planning Board in 1934, the first peacetime national planning agency emerged. However, the principle of avoiding competition with the private sector was generally maintained, and with the possible exception of the TVA, this planning never adopted the broad basis advocated by some of the early conservationists. At the same time, reforestation, soil conservation, and highway construction carried out more conventional concepts.

World War II removed the basis for government spending to reduce unemployment; hence the National Resources Planning agency failed to receive congressional financial support and was terminated in 1943. Instead, other governmental boards with substantial power were set up to control allocations of scarce materials. After the war, natural resources left the realm of national policy and consideration (except briefly during the Korean crisis) and were subsumed once again in the less dramatic category of conservation. There they have remained.

In short, the turn-of-the-century recommendations for domestic resources control were drowned by a virtuosic technological development that made the warnings of scarcity sound peevish and anachronistic. Then too, as one observer has recently noted: "... the peculiarities of the American political system, bolstered by the pragmatic approach to policy decisions, have introduced into resource programs and policies an almost pathological emphasis on local factors, local developments, local benefits, at the expense of a larger national view of the public interest." N. Wengert, *op. cit.*, p. 71.)

The Underdeveloped World's Problems

Separated from the international economy, domestic natural resource questions probably would continue to receive diminishing attention and remain a problem for the distant future only. In 1870, 50 percent of the total

labor force was employed in agriculture whereas today less than 10 percent make their living in all the extractive fields, including agriculture.

In the underdeveloped countries of the world, and 85 of the 111 members of the United Nations are so considered, quite a contrary situation prevails. With half to three-quarters of their labor forces employed in resource enterprise, primarily agriculture, and deriving the bulk of their international purchasing power from the export of raw materials, these countries are deeply involved with natural resource matters.

Increased sales of their own raw materials, importation of capital goods, massive technical and educational assistance, and eventual access, when their own developmental levels warrant it, to the now tightly held supplies of the world's raw materials — these are the requirements of the developing societies, now and for decades ahead.

The agonizing question facing most developing economies today is how they may transform their raw materials output into capital equipment. Economically viewed, sound policy must aim at a conversion of capital assets from an original form to one more valuable in the development programs. Harrison Brown makes the need very clear: "... it must be kept in mind that high-grade resources are in fact valuable, high-grade capital assets and that sooner or later they will disappear. Funds derived from their sale should be converted to other forms of capital, which are of equal or greater value, particularly into basic industrial installations and into power, transportation and communications systems. The conversion of high-grade resource assets into current living expenses by means of export can lead to tragedy." ("Resource Development and Technology," in *Natural Resources*, Vol. 2, p. 4.)

Another conversion which the developing economies must undertake is the gigantic task of transforming millions of untrained people into economically valuable human resources. This involves the construction of educational systems from elementary to postdoctoral levels, to provide the specialists, the technicians, and the skilled workers who will be needed in the industrial revolution.

Finally, looking further into the future, after the developmental process has been at least initially successful, the new nations must have access to raw materials, the bulk of which are now being consumed by a handful of industrialized countries.

Each of these requirements impinges directly or indirectly on current United States resource patterns. When considered collectively they impose a far-reaching challenge, for it is apparent that these are matters which the existing resource-administering institutions of the United States are ill-prepared to handle.

Developed Versus Developing Economies

Two practices of the industrial countries are particularly objectionable to the underdeveloped states. First, it is perhaps ironic that the original fear of the conservationists, of a society running out of natural resources, has been replaced by the problem of how to keep raw materials out of the country. Yet existing American and Western European protectionist policies which exclude fuels and metals and some agricultural items are critical deterrents to the development of backward states.

Second, uncontrolled economic fluctuations and lower-than-average growth rates in the industrialized nations, especially in the United States, are also reflected quickly in lowered materials consumption and prevent foreign exchange from flowing to primary producers.

Trade and growth policy have thus become integral parts of international resource relationships though they have scarcely ever been judged so in this country's deliberations.

Still another consideration in this connection is the willingness of American society to play a constructive leadership role in the world economy. This means giving the goods, services, and assistance that may be sought by other societies as well as taking the materials considered useful to this economy. Assisting the rapidly increasing international demands for educational and technical assistance may require substantial restructuring of the domestic economy. The ability of the American industrial system to produce an incredible array and amount of consumer goods has never been doubted. What is at issue is its apparent inability to order resources into other uses, whose priority ranking may be established by criteria residing outside of exclusively domestic considerations. Whereas the discussion in recent years has pitted the private against the public sector, in reality the canvas is much broader. The public sector now reaches far beyond the domestic economy and has an integral tie with the human resource needs of the developing nations.

The high and still rising per capita consumption of raw materials in the industrialized societies, upon which the producing countries now greatly depend for their hopes of improvement, is a case in point. It would be comforting to regard rising levels of consumption in the advanced societies as a uniform blessing to consumers and producers alike. In neither case is this apparent.

What becomes increasingly evident is that so far as the supply, the sale, the use, and the future of raw materials are concerned, the United States finds itself in an ever more interdependent relationship with the underdeveloped nations of the world. In addition, the consumption behavior of its own population is affected by, and will affect, these same societies. Paradoxically, the simple domestic interdependencies of nature that the early conservationists explored and tried to relate to national resource control, though still operative, have been subordinated to deeper and more perplexing international interconnections, which have already begun to create their own paths of interaction.

Now the force of new world political configurations is felt in all industrialized nations and the United States moves perhaps unwillingly but irresistibly into international economic interdependency with the impoverished two-thirds of the world. Whether the needs of the developing economies, and the recognition of the conflicts that the thwarting of these needs would incite, will force new patterns of resource management on the American economy is a fascinating and as yet unanswered question.

The Consumer's Role

(Continued from page 2)

The expansion of debt represents a substantial current stimulus to economic activity. Unfortunately, this kind of stimulus tends to be unstable, and a mere reduction in the rate of new debt creation represents a deflationary force.

The Consumer Balance Sheet

The foregoing account is not intended to convey the idea that consumers have failed to acquire assets as fast as debt. Net saving has consistently been positive, and in

most years since the mid-1950's, increases in financial assets alone have exceeded the expansion of debt. In fact, during the latest advance from the 1961 lows, the accumulation of liquid assets alone has exceeded debt expansion by a wide margin. The strong flow of funds into time deposits and savings and loan shares has led financial institutions into all-out competition for mortgage and consumer loans, so the increase in liquid assets has a direct counterpart in the borrowing described above.

Evidently the over-all balance sheet for consumers has improved substantially during the postwar period, as should be expected in years of high prosperity. Consumer debt may reach a total of about \$250 billion by the end of the year. Liquid assets then held by the public, including government savings bonds and other government securities maturing within one year, will probably total almost twice as much. This takes no account of other financial assets, which are estimated to exceed liquid assets by more than 50 percent, or of physical assets in such forms as houses and cars. The debt is clearly well covered for consumers in the aggregate.

The great accumulations of assets and debt are among the most important changes that have occurred in the postwar years. They may now be regarded as elements of strength or of weakness, depending on whether one looks at the liquid asset holdings on the one hand or at the physical assets and debt on the other.

Those who view the situation optimistically regard the stock of liquid assets as a source of support for the economy should a decline occur. They also hold it to be a source of potential inflation in the event that recovery proceeds swiftly toward full employment.

Others express concern about deflation, pointing out that in a country so definitely divided between high borrowers and high savers, a large group of consumers is without adequate coverage for their indebtedness. Many families have no liquid assets to speak of, and their incomes provide no more than a minimum for current living expenses in view of their high fixed charges. Except for families that have suffered unemployment, there has been a shift away from this position, but the growth in savers offers no guarantee of continued prosperity, because almost everybody who now has funds seems also to have all the other things he needs. That, in fact, is why the savers are being held as liquid assets, earning a satisfactory rate of interest with the principal guaranteed by the government. The question, then, is whether the dis-savers will continue to extend themselves indefinitely into the future and keep on borrowing enough always to put the savings of the other group back to work.

The difficulty may be illustrated by an analogy: Suppose there existed a community with two industries, each employing half the workers, with one holding a great excess of liquid assets and constantly adding to them, the other holding little more than enough to maintain solvency and borrowing to cover expenses. The workers employed by the latter and the civic leaders might not feel entirely comfortable under these circumstances, though the situation would remain satisfactory as long as prosperity brought a sufficient volume of demand to cover the weaker industry's commitments.

So it is with consumers in the aggregate. Both borrowing and saving are high, with the former likely to be more volatile than the latter. Nevertheless, as long as the over-all economic situation is strong enough to keep incomes moving up, there is no need to look for a change in consumer behavior to produce a definite break in the recent trend.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

New Fact Book

The Bureau of the Census has released the 1963 edition of the *Statistical Abstract of the United States*. This is the 84th edition to be issued and contains the latest figures on the social, political, and economic aspects of the country. There are 1,263 tables of statistics. Copies of the 1963 *Abstract* may be obtained for \$3.75 by writing to the Superintendent of Documents, Government Printing Office, Washington, D. C. 20402, or to the nearest Department of Commerce field office.

Retirement Age Falling

During the 1950's the length of working life of American workers started to fall for the first time in our nation's history. There are two reasons for this decline: the longer training period required for young workers prior to entering upon a career and the continuing drop in the retirement age. In previous periods the effects of earlier retirement and additional training on length of working life had been offset by large increases in life expectancy. During the 1950's, however, life expectancy rose only one year.

One of the main causes of the decline in the age of retirement has been the continuing liberalization of social security benefits and the development of private pension systems which contain compulsory retirement provisions. Other factors, such as the declines in nonagricultural self-employment and farm employment, plus the difficulty of older persons in finding new jobs have contributed to earlier retirement. As indicated in the chart, in 1940 only 70 out of 1,000 men 65 years old left the labor force as a result of retirement. However, by 1950 this figure had

reached 83 per 1,000 and by 1960 the retirement rate at 65 was up to 234 per 1,000. With the expected increase in the American work force during the next decade and the problem of finding enough jobs for this work force, the economic pressure to lower the compulsory retirement age in many occupations is expected to continue.

Business Population Grows

At the beginning of 1963 the number of business concerns in the United States reached 4.8 million, almost 1 percent higher than a year earlier, according to the United States Department of Commerce. During 1962 approximately 430,000 firms started business whereas 390,000 businesses discontinued operations. A slight increase in the number of new service concerns from the previous year was balanced by a decline in contract construction and retail trade establishments.

During recent years the growth in the number of business establishments has occurred mainly in the service and retail trade establishments. During 1961 and 1962 in the areas of manufacturing and contract construction there were decreases in the number of new firms entering the market. In all major areas of business there have been continuing increases in the number of firms going out of business during the last four years.

Strikes Decrease

The number of strikes and the amount of time lost because of labor disputes during 1962 were below levels for most postwar years but rose above the totals recorded in 1961. The number of stoppages due to strikes in firms of 1,000 or more employees totaled 3,614 during 1962, a 9 percent increase over 1961.

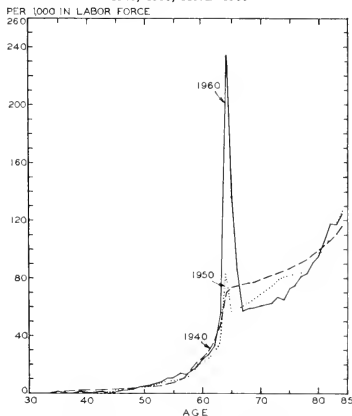
However, a comparatively low proportion of total idleness, only 26 percent (a postwar low), resulted from strikes involving 10,000 or more workers. In all postwar years except 1951, 1953, and 1957, this rate has ranged from 43.4 percent to 73.7 percent. There were 16 major stoppages involving 10,000 or more workers in 1962 compared with 14 in 1961 and 17 in 1960. Among the largest stoppages last year were those involving the longshoremen on the Atlantic and Gulf coasts, the construction workers in northern California and in the Detroit area, the New York newspaper workers, and the employees of the Lockheed Aircraft Corporation.

Disputes over general wage changes caused 42 percent of all the strikes in 1962. Of the 16 major strikes, 10 resulted from this type of dispute. Disputes over union organization and security were the next highest cause of strikes, accounting for 16 percent of the total.

Housing in Metropolitan Areas

In only 6 of the 40 major standard metropolitan statistical areas were more private housing units authorized for construction in the central cities than in the suburbs in 1962. The central cities accounted for only 35 percent of the 695,100 units authorized in these 40 areas, with New York having the largest percentage. Units in structures for 5 or more families accounted for 41 percent of the total, thus continuing the sharp increase of apartment construction which has developed during the last few years.

ANNUAL RATES OF RETIREMENT FOR MALES
1940, 1950, AND 1960



Source: U.S. Department of Labor, *Manpower Report*, July, 1963, pp. 11-13.

LOCAL ILLINOIS DEVELOPMENTS

Job Total Hits Peak

Nonfarm employment in Illinois rose to 3,632,100 in mid-August, according to Director of Labor John E. Cullerton. This was the highest total for any August in Illinois history and second only to the all-time unadjusted high set in June of this year. The total was 12,000 above the July figure and 40,700 above that of a year earlier. August marked the 22nd consecutive month in which employment figures exceeded those for the same month of the previous year.

The largest gain for August over July was the seasonal rise of 5,100 in the food industries; 4,200 of this increase was accounted for by firms engaged in the canning and preserving of fruits and vegetables. A seasonal gain in the construction industry which had been expected did not occur because of a series of labor disputes involving approximately 3,000 workers in downstate Illinois. After adjustment for seasonal factors, Illinois employment stood at an all-time high of 3,621,200.

New Growth Measure

A tabulation of "births" and "deaths" of establishments employing 20 or more workers and subject to the Illinois Unemployment Compensation Act during fiscal 1961 has been made by a division of the Illinois Department of Labor as a partial measure of economic growth. Cook County accounted for about 70 percent of total births and deaths. The remaining 30 percent occurred in 47 downstate counties, with no single area showing any significant degree of gain or loss.

Construction firms were excluded from the study. Seasonal fluctuations in such employment are large and widespread, and many of these firms become active on relatively short-term and temporary contracts.

A total of 194 nonconstruction establishments with 20 or more workers began operations in fiscal 1961; this exceeded the number of discontinued plants by 43. The most significant contrary movement took place in manu-

facturing. Here losses of 44 outnumbered gains by 32, and 3,400 employees lost their jobs.

More favorable changes in the trade and service industries offset manufacturing losses. The largest expansions were in retail general merchandise and in eating and drinking places. New jobs in the service industries were concentrated in hotels and other lodging places and in medical and health services.

Capital Improvements Program in Chicago

According to its recently announced 1963-67 capital improvements program, the Chicago Department of City Planning has allocated a total of almost \$1.5 billion for the construction of 950 projects in the city.

Projects to be built by city agencies are valued at \$581 million. The total for these projects is 33 percent less than the \$869 million allocated for city agencies in the 1962-66 program, which has now been replaced. A factor in the decrease has been the large number of previously scheduled projects that have been completed. The remainder of the new program consists of projects of various county, state, federal, and city agencies other than the City of Chicago, such as the Park District and Board of Education. Improvements planned by these groups are valued at \$867 million.

Major categories of capital expenditures to be made by city agencies over the five-year period and the amounts involved are as follows: water and sewer facilities, \$141 million; street improvements, including parking facilities, \$134 million; urban renewal, \$127 million; expressways, \$77 million; public buildings, \$57 million; and other, including airports, rapid transit facilities, and Navy Pier improvements, \$44 million.

Improvements included for the first time in this year's program will cost \$130 million. Among them are the extension of a runway at O'Hare Field, installation of the Eastwood Sewer System on the North Side, the relocation of Halsted Street at 63rd, and engineering funds for the Columbus Avenue overpass over 79th and Kedzie.

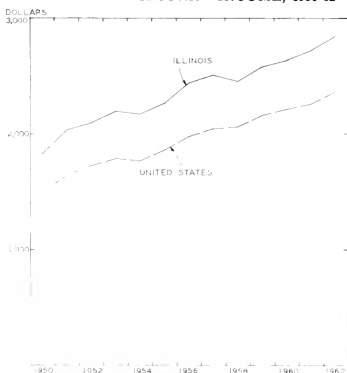
Personal Income Continues to Rise

Net personal income in Illinois reached a new high of \$28.9 billion in 1962, 5 percent above 1961. Wage and salary disbursements and other labor income accounted for \$20.6 billion. Of this total, \$7.2 billion was contributed by manufacturing, \$3.8 billion by wholesale and retail trade, \$2.5 billion by government, and \$2.1 billion by services. Farm and nonfarm proprietors' income totaled \$2.9 billion; property income, \$3.8 billion; and transfer payments, \$2.2 billion. Personal contributions for social insurance subtracted \$0.3 million from the gross.

As in 1960 and 1961, Illinois ranked third among the 50 states and the District of Columbia. New York ranked first and California second. On a per capita basis Illinois ranked seventh; several smaller states such as Connecticut and New Jersey as well as the District of Columbia had higher per capita incomes. However, the 1962 Illinois per capita income of \$2,844 was a record high for the State, 4.4 percent above the previous year and an increase of 36 percent over the 1952-62 decade.

Illinois continued to rank well above the national average in per capita personal income (see chart). The increase for the nation was also 4.4 percent in 1962 but the gain for the 1952-62 period, 37 percent, was slightly higher than that for Illinois.

PER CAPITA PERSONAL INCOME, 1950-62



Source: U.S. Department of Commerce.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1963

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
		\$46,679 ^a	1,549,772 ^a			\$23,237 ^a	\$18,006 ^a
Percentage change from.....	July, 1963..... Aug., 1962.....	+13 9 +2 1	+4 0 +10.9		+25 +15	-9 4 +3 3	+9 1 +15 7
NORTHERN ILLINOIS							
Chicago							
		\$28,776	1,093,518			\$21,509	\$15,446
Percentage change from.....	July, 1963..... Aug., 1962.....	+19 2 -2 4	+2.5 +9.6		+25 +15	-9 6 +3.1	+11.6 +14.9
Aurora							
		\$ 1,169	n.a.			\$ 96	\$ 201
Percentage change from.....	July, 1963..... Aug., 1962.....	+56 9 +54 4			n.a.	-3 3 +9 9	+4.6 +20 1
Elgin							
		\$ 373	n.a.			\$ 58	\$ 185
Percentage change from.....	July, 1963..... Aug., 1962.....	-36 5 -28.7			n.a.	-11.7 +7 0	+34.5 +12 0
Joliet							
		\$ 724	n.a.			\$ 106	\$ 123
Percentage change from.....	July, 1963..... Aug., 1962.....	+1.0 +8.5			+18 +5	-0 3 +3 1	-10 8 +19 4
Kankakee							
		\$ 224	n.a.			n.a.	\$ 65
Percentage change from.....	July, 1963..... Aug., 1962.....	+0.2 -66.5			n.a.		-14 8 -6.6
Rock Island-Moline							
		\$ 1,591	37,519			\$ 143 ^b	\$ 146
Percentage change from.....	July, 1963..... Aug., 1962.....	+34.3 +78.0	+12.4 +17.8		n.a.	-2 4 +15.0	-31.1 -11.7
Rockford							
		\$ 2,634	65,336 ^c			\$ 240	\$ 272
Percentage change from.....	July, 1963..... Aug., 1962.....	+54.2 -2.5	+3.0 +9.7		+24 ^c +8 ^c	-0 2 +4 4	+0.7 +18 1
CENTRAL ILLINOIS							
Bloomington							
		\$ 680	15,222			\$ 102	\$ 149
Percentage change from.....	July, 1963..... Aug., 1962.....	-64.4 -41.9	+6.6 +11.6		n.a.	-12.4 +4.3	-4 1 +27.1
Champaign-Urbana							
		\$ 407	23,664			\$ 102	\$ 143
Percentage change from.....	July, 1963..... Aug., 1962.....	-86.6 -22.5	+6.0 +24.7		n.a.	-14.4 +12.9	-4 1 +19.3
Danville							
		\$ 527	22,680			\$ 57	\$ 79
Percentage change from.....	July, 1963..... Aug., 1962.....	+135.7 -32.0	+9.7 +14.5		+21 +5	-7 9 +6 9	-11.3 -3 0
Decatur							
		\$ 5,382	49,107			\$ 141	\$ 152
Percentage change from.....	July, 1963..... Aug., 1962.....	+632.9 +1,184.8	+15.3 +23.2		+21 ^a +12 ^c	-4.7 +12.0	-1 3 +25.3
Galesburg							
		\$ 473	13,633			n.a.	\$ 51
Percentage change from.....	July, 1963..... Aug., 1962.....	+56.3 -59.6	+17.6 +22.6		n.a.		-12.7 +33.4
Peoria							
		\$ 1,616	80,994 ^c			\$ 286	\$ 332
Percentage change from.....	July, 1963..... Aug., 1962.....	+116.8 -52.0	+13.9 +14.1		+33 +8	-10 9 +7.7	+5 3 +24.7
Quincy							
		\$ 239	18,144			\$ 58	\$ 79
Percentage change from.....	July, 1963..... Aug., 1962.....	+13.3 -48.1	+3.1 +18.8		n.a.	-10.3 +6 0	-5 5 +19 1
Springfield							
		\$ 843	60,177			\$ 158	\$ 393
Percentage change from.....	July, 1963..... Aug., 1962.....	-75 9 -46.6	-1.7 +10.4		+23 ^c +10 ^c	-7.8 +4 3	-2.3 +34.7
SOUTHERN ILLINOIS							
East St. Louis							
		\$ 93	21,177			\$ 132	\$ 77
Percentage change from.....	July, 1963..... Aug., 1962.....	-74.5 -25.4	+5.9 +6.0		n.a.	-6 3 -7 3	-37.5 +13.2
Alton							
		\$ 340	30,422			\$ 49	\$ 46
Percentage change from.....	July, 1963..... Aug., 1962.....	-20.0 +151.2	+7 9 +7.6		n.a.	-16.8 +2 8	+5 5 +25.3
Belleville							
		\$ 589	18,179			n.a.	\$ 66
Percentage change from.....	July, 1963..... Aug., 1962.....	+139.7 +92.0	+13.0 +13.6		n.a.		-0 0 +28.3

* Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data for July, 1963, not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending August 16, 1963, and August 17, 1962.

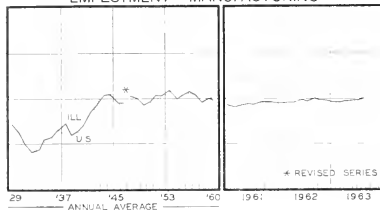
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

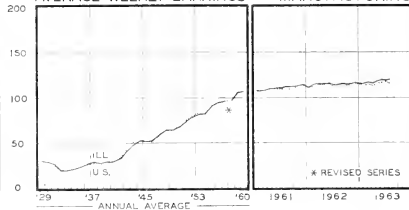
Illinois Historical Survey
413 Lincoln Hall

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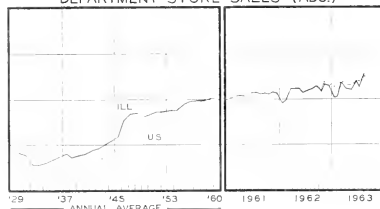
EMPLOYMENT - MANUFACTURING



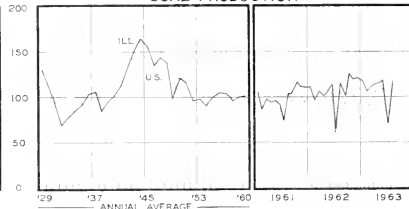
AVERAGE WEEKLY EARNINGS - MANUFACTURING



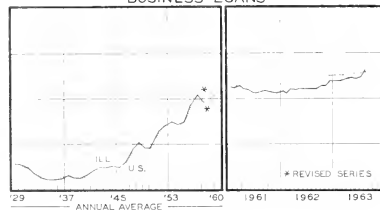
DEPARTMENT STORE SALES (ADJ.)



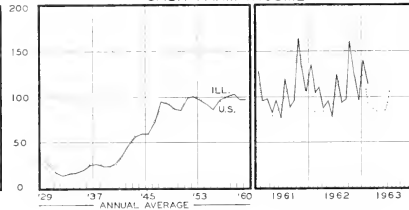
COAL PRODUCTION



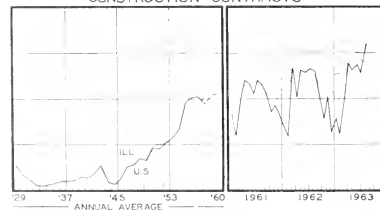
BUSINESS LOANS



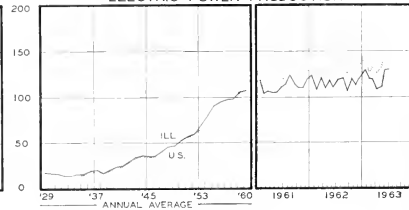
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 20

NOVEMBER, 1963

NUMBER 10

HIGHLIGHTS OF BUSINESS IN OCTOBER

Production indicators showed mixed signs again in October but in most cases changes were relatively small. Electric power production and coal output were off slightly, and petroleum showed virtually no change. Steel ingot tonnage inched upward every week but one: production of 1,944,000 tons in the week ended November 2 was the highest since mid-July. Industry spokesmen anticipate that output will continue at about the October level for the rest of 1963, with an expected rise in consumption by automobile manufacturers offset by the decline in demand by the construction industry. The car makers turned out 798,719 assemblies, the largest number ever produced in one month, as they tried to build up dealers' stocks. Freight carloadings rose substantially above those of the previous month as a result of the movement of harvested farm crops and of increased shipments of manufactured goods. Paperboard production was also somewhat higher than the month before. As a result of fractional increases in most of the major components, the FRB index of industrial production rose from 125.9 in September to 126.6 (1957-59 = 100), just above the previous record of 126.5 last July.

Record Car Sales

Sales of American-made automobiles hit a new record in October. At 771,350 units, car sales were about 6 percent higher than the previous peak reached in October, 1962. It was the third time this year that monthly sales had topped the 700,000 figure; prior to this year monthly sales had exceeded 700,000 only twice. General Motors and Ford reported that their sales set records for any month, and American Motors reported a record for the month of October. An especially encouraging sign to the automobile manufacturers was the fact that sales were continuing at a fast pace late in the month.

Construction Drops Seasonally

Construction activity showed the expected seasonal pattern in October, declining 3 percent from September to \$6.0 billion. Compared with October, 1962, however, outlays were up 4 percent. The private and public components both conformed to the usual seasonal movement. Private spending for new construction totaled \$4.2 billion, 2 percent less than in September but 8 percent higher than in the year-earlier month. Nonfarm residential building accounted for \$2.4 billion, 12 percent more

than in the corresponding month of 1962. In contrast to the strength shown by private construction, public construction dropped 5 percent below October, 1962.

The F. W. Dodge Corporation has recently estimated, on the basis of contracts awarded in the first nine months, that construction activity will continue at a high level for the rest of this year and will finish the year nearly 7 percent above the 1962 figure.

Stock Market Margins Raised

The Federal Reserve Board raised its margin requirements for stock purchases from 50 percent to 70 percent on November 6. Besides requiring that buyers put up 70 percent of the price of new securities bought, the Fed also provided that when stocks previously bought on margin are sold, the seller must now apply 70 percent of the proceeds, rather than 50 percent, toward reducing his debt to his broker or bank. There had been some speculation that such a move might be made in view of the substantial rise in outstanding credit for stock buying, the heavy volume of trading in recent weeks, and the high level of stock prices. The change is intended to lessen actual and potential speculative buying of securities listed on the organized exchanges and is termed "precautionary" by FRB spokesmen. The margin requirement was last changed — from 70 percent to 50 percent — in July, 1962. Since then, stock market credit has increased from \$4.8 billion to \$6.9 billion (at the end of September), a rise of 43 percent to a new record. About 85 percent of the advance has been in brokers' loans to their customers.

Instalment Credit Expansion Slows

September witnessed a further slowing in the rate of increase in instalment credit outstanding. A seasonally adjusted advance of \$321 million was the smallest in 1963 and was well under the average monthly rise of \$450 million in the first eight months. Lower rates of growth in credit extended on cars and other consumer goods were cited by the Federal Reserve Board as the chief factors in the slowdown. The net addition to automobile loans in September was only \$60 million, owing partly to a drop in car sales before 1964 models became widely available. In contrast to these two categories of instalment credit, personal loans were up by \$193 million, the largest monthly advance on record. Noninstalment credit showed virtually no change.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide business-men of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The Review will be sent free on request.

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Relief from Wheat Subsidies

Our wheat surplus suddenly seemed to acquire undreamed of value when the Soviet Union decided to buy. By some accounts, it became worth not only a good price but all kinds of supplementary economic and political advantages.

The situation prevailing up to that point was that several other producing countries also had large surpluses. The surpluses existed, of course, only on the philosophy of "pay for what you get." With hundreds of millions of people near starvation, there was no lack of need for the grain, but most of them lacked the ability to pay for it. In fact, the very magnitude of their need substantiated the principle of commercial distribution, because the surpluses were not large enough to take care of all the needs in any case.

What changed the situation was the failure of crops in Europe and the Soviet Union. The resulting shortages in those areas were apparently not of disaster proportions, but they were embarrassing, and there was no need for people who had foreign exchange to tighten their belts severely when supplies were available elsewhere. Purchases by the Eastern European countries have been given the most attention in the news, but the Western Europeans have also been in the market. Even France, which is normally an exporter of wheat, had a poor crop, forcing some purchases this year.

Selling at the World Price

The countries with surpluses are usually eager to sell to buyers with cash or good credit ratings. The Communist countries went elsewhere first and were able to buy two to three times as much wheat from Canada and Australia as they now propose to buy from us. Credit was willingly extended. They have also bought substantial quantities of flour from Western European countries, particularly Germany, and since we have exported large quantities of wheat to Western Europe, particularly Germany, some of the flour may be considered American wheat in processed form.

Most of the wheat purchases were made at the world price of about \$1.50 a bushel, which is substantially below the price at which the same grade of wheat sells here. The support price at which our government buys the wheat from the farmers is \$1.82, and except for some weeks last summer, following the farmers' rejection of

proposed controls, the actual market price here has been somewhat higher than the support price.

Nobody in other parts of the world would be willing to buy wheat at our domestic price as long as supplies could be obtained elsewhere. In order to retain a share of export markets, therefore, our government has been subsidizing exports. It does this by paying the exporter the difference between prices here and abroad, in effect absorbing the loss he would incur if he bought the wheat here and sold it abroad. The export sale does not create the loss, however; it merely realizes a loss that already exists as a result of the price support program. In addition to sales on this basis, we have made some export shipments under aid programs, for which no payment is received, or on special arrangements where the only payment is in local currencies which cannot be transferred and are therefore of limited use to our government.

Other producing countries have sometimes charged us with unfair competition, since our subsidized exports may be held to depress the market. We counter this charge, however, by pointing out that we have not tried to break the market, that if we really tried to sell off our surplus, the greater supply thrown on the market would depress it still further. In the last three years, we have reduced our stocks only moderately despite non-cash sales, and the price has remained well within the range established by the International Wheat Agreement, which sets minimum and maximum prices that must be observed by all parties for the period specified. In other words, prices have been supported internationally as well as domestically by agreement among all the largest producing and importing countries.

A Good Bargain

In selling to the Communist countries at the world price, we seem to be making a good bargain in more ways than one. They agree to pay in gold and dollars, and with part of the 150 million bushels carried in American ships and thus producing freight revenues, our balance of payments should be improved by something like \$250 million. This should be considered a real gain in view of the policy distortions that result from our preoccupation with the balance-of-payments problem.

In addition, the surplus we have to carry over from year to year would presumably be reduced, so that future costs for handling, storage, and interest would be avoided. It is estimated that the cost of carrying 150 million bushels of wheat is about \$30 million a year, and the saving increases proportionally for larger reductions in the surplus. The American taxpayer can be happy to obtain this relief on a continuing basis.

At the moment, the transaction is held up by President Kennedy's stipulation that the wheat be carried in United States ships to the extent that they are available. The Communist buyers have refused to pay the extra \$10 a ton in freight rates that would be required for transport in our ships. This high rate results from earlier United States cargo-preference policies which create a separate market for our shipping industry and are in effect a price-increasing subsidy. Since the justification for the subsidies to our ship lines is national defense, that is, the need to have ships available for a possible future military emergency, we are in effect asking the Soviets to help pay for part of our defense program. Apparently a compromise is in the making, with a reduction in the premium charged and a limitation on the proportion to be carried in our ships.

(Continued on page 8)

CHANGING EMPLOYMENT IN ILLINOIS

One of the most controversial aspects of industrialization has been its effect upon the actual work performed by the labor force. There have been many who felt that, although productive, factory work eliminated the individuality and the accompanying personal satisfactions of the craftsman and substituted dull, repetitive, soul-destroying tasks. In many instances this has been true, and it has also often brought about a shift to urban living. But the true benefits have also become apparent—the use of power to remove exhausting drudgery from most activities and the rise in our standard of living.

It seems that we are now entering another stage of benefits, where the monotonous work becomes automated, and the skilled role is returned to the worker in the form of planning, designing, operating, and maintaining the complicated machinery. Also, the number of working hours will undoubtedly continue to decrease, while demand for the accoutrements of leisure will expand. In view of these emerging characteristics, it is apparent that the time spent in education for work and for leisure must increase.

Although these pressures and changes come from within the pattern of social development they are also forced by the real business incentives of competition among firms, states, and even countries. The application of more advanced technology by one very often soon obliges the others to follow suit or fall behind in sales and profits. The upward pressures of wages are also inducing more and more industries to turn to further mechanization which will reduce the labor content of their products. The sum total of pressures is thus toward a continuing increase in both utilization and sophistication of technology.

Employment Patterns

Between 1960 and 1970, the growing population of Illinois may increase the present labor force of 4 million by as much as 20 percent. The Illinois Department of Labor has recently made detailed projections which result in more conservative figures. The 1970 total labor force is estimated by them at 4.5 million. It is significant that about 70 percent of this extra half million will be in the 14 to 24 age group. At the present time, this is the age group with the severest unemployment problem.

During this decade, when the labor force will probably rise by about an eighth, there will not be the same rise in the number of jobs in the various classifications of work. The change in numbers engaged in work requiring no or little skill—laborers, operatives, sales clerks—will absorb only about 8 percent of the growth in the labor force. This group is now about 33 percent of the labor force, and will be about 31 percent with 1.38 million workers. The change in craftsmen, service, and clerical employees, who require medium skills, will absorb 62 percent of the increase, rising from 42 percent to become about 44 percent of all people working. This group will have 1.99 million workers. The highly skilled professional and managerial group will take 28 percent of the increase. It will

remain about 23 percent of our labor force in 1970 with 1.06 million in it. Private households make up the other 2 percent. There will be an actual decline in the number of farmers. It is clear that more people will have to take full advantage of their natural abilities than do so at present.

While there will still be sufficient openings for skilled personnel, the unskilled positions will become highly competitive. Predominantly light work will be shifted from men to women. There is every reason to assume, however, that machinery will increasingly make itself felt in office work and sales, and reduce the number of unskilled women workers. In 1970, it is expected that the ratio of men to women in employment will remain at almost exactly 2 to 1.

What Is Being Done

An immediate problem is that these changes in employment patterns are taking place almost continuously and are having effects upon the current labor force. Although the high school and university training available in Illinois can satisfactorily equip the employee for many occupations, vocational and technical training are inadequate, particularly the latter. The effects of this inadequacy have been felt in recent years in the shortage of appropriate personnel both in industry and in other areas. At the same time, there are also many cases of waste, where qualified engineers are performing work which could be done by technicians.

One of the deficiencies lies in the inadequate application of a statewide or national standard of courses of study and accreditation for technical schools and their graduates, although attempts are being made to extend standards which have been formulated. The method has been found to produce good results in Europe and Britain. A further area for improvement lies in apprenticeship training. This often should be revamped to meet changed needs, possibly combining theory and practical work, so as to properly equip craftsmen to meet technological changes in their own areas.

As a positive step the State, with federal assistance, has undertaken manpower development and training programs in a number of cities. A start has been made by giving a wide range of training to 9,000 persons under these projects. It is expected that the federal assistance available will almost double next year as a result of new legislation, and with the State matching these contributions a much enlarged program is possible. A federally sponsored research project at the University of Illinois to determine the real curriculum needs for technicians should help in determining allocations. The American Society for Engineering Education, with headquarters at Urbana, has for many years been active in stimulating interest and providing reference data in this area.

It would seem that if the difficulties of our changing employment pattern are not acted upon, then many of our growing population may end up as costly unemployables instead of competent workers who can contribute to the proper economic growth of our State.

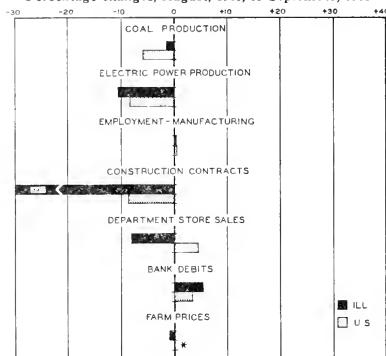
KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

UNITED STATES MONTHLY INDEXES

Percentage changes, August, 1963, to September, 1963



* Not seasonally adjusted. * No change.

ILLINOIS BUSINESS INDEXES

Item	Sept. 1963 (1957-59 = 100)	Percentage change from Aug. 1963	Sept. 1962
Employment—manufacturing ¹	99.8	+ 0.1	+ 0.1
Weekly earnings—manufacturing ¹	119.7 ^a	+ 1.4	+ 3.2
Consumer prices in Chicago ²	105.6	0.1	+ 0.4
Life insurance sales (ordinary) ³	125.4	+ 1.1	+15.0
Dept. store sales in Chicago ⁴	120.0 ^b	- 6.3	+ 5.3
Farm prices ⁵	98.0	- 1.0	- 4.9
Bank debits ⁶	147.2	+ 5.3	+15.8
Construction contracts ⁷	96.3	-39.7	- 4.7
Electric power ⁸	116.6	10.6	+ 8.9
Coal production ⁹	115.1	1.5	+13.5
Petroleum production ¹⁰	95.5	2.7	- 0.9

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Agency, Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted.

Item	Sept. 1963	Percentage change from Aug. 1963	Sept. 1962
Annual rate in billion \$			
Personal income ¹	466.4 ^a	+ 0.3	+ 4.7
Manufacturing ¹			
Sales	424.8 ^a	+ 0.3	+ 5.0
Inventories	59.1 ^{a,b}	+ 0.2	+ 3.5
New construction activity ¹			
Private residential	29.7	- 1.6	+ 7.1
Private nonresidential	21.3	+ 1.7	+ 2.7
Total public	23.3	+ 0.4	+10.9
Foreign trade ¹			
Merchandise exports	22.9 ^c	+ 5.1	+13.5
Merchandise imports	17.5 ^c	- 2.9	+ 7.8
Excess of exports	5.4 ^c	+43.6	+37.5
Consumer credit outstanding ²			
Total credit	66.3 ^b	+ 0.3	+10.3
Instalment credit	51.6 ^b	+ 0.4	+11.5
Business loans ³	41.9 ^b	+ 2.8	+ 7.5
Cash farm income ⁴	36.9 ^c	+ 8.3	- 1.2
Indexes (1957-59 = 100)			
Industrial production ²			
Combined index	126 ^a	+ 0.1	+ 4.9
Durable manufactures	125 ^a	0.0	+ 5.0
Nondurable manufactures	127 ^a	+ 0.4	+ 4.4
Minerals	110 ^a	- 0.5	+ 4.4
Manufacturing employment ⁴			
Production workers	100 ^a	+ 0.1	+ 0.5
Factory worker earnings ⁴			
Average hours worked	102	+ 0.2	- 0.2
Average hourly earnings	115	+ 1.2	+ 2.9
Average weekly earnings	117	+ 1.5	+ 2.7
Construction contracts ⁵	129	- 8.7	+13.3
Department store sales ⁶	119 ^a	- 4.8	+ 1.7
Consumer price index ⁴	107	0.0	+ 0.9
Wholesale prices ⁴			
All commodities	100	0.1	- 0.9
Farm products	95	0.9	5.2
Foods	101	0.0	2.3
Other	101	0.0	0.0
Farm prices ³			
Received by farmers	100	0.0	- 2.9
Paid by farmers	106	0.0	+ 1.0
Parity ratio	77 ^d	1.3	- 4.9

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ^a End of month. ^b Data for August, 1963, compared with July, 1963, and August, 1962. ^c Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1963					1962
		Oct. 26	Oct. 19	Oct. 12	Oct. 5	Sept. 28	Oct. 27
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,592	1,603	1,619	1,617	1,646	1,448
Electric power by utilities	mil. of kw-hr.	17,261	17,173	17,255	17,106	17,285	16,149
Motor vehicles (Wards)	number in thous.	213	210	203	194	183	192
Petroleum (daily avg.)	thous. bbl.	7,608	7,610	7,584	7,596	7,578	7,341
Steel	1957-59 = 100	102.8	102.4	102.8	101.1	100.9	94.9
Freight carloadings	thous. of cars	625	626	636	632	620	615
Department store sales	1957-59 = 100	112	122	118	122	119	116
Commodity prices, wholesale:							
All commodities	1957-59 = 100	100.4	100.3	100.4	100.3	100.3	100.6
Other than farm products and foods	1957-59 = 100	100.7	100.7	100.8	100.7	100.8	100.7
22 commodities	1957-59 = 100	96.2	95.7	96.0	94.9	93.8	93.8
Finance:							
Business loans	mil. of dol.	36,310	36,282	36,121	36,145	35,944	34,009
Failures, industrial and commercial	number	279	303	257	287	254	290

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for October, 1962.

RECENT ECONOMIC CHANGES

Sales by Foreign Plants

Sales by foreign manufacturing plants operated by United States companies rose \$2.5 billion during 1962 to a record \$28.1 billion, according to a recent release of the Department of Commerce. Of this increase, European plants accounted for \$1.1 billion, with Germany, France, Italy, and the United Kingdom showing strong advances. In Canada, American-owned companies reported a marked upturn in sales after a relatively slow rate of growth in the 1959-61 period, with the largest gains occurring in the automotive products group. Growth of sales in Latin America was led by the chemical industry.

Over 80 percent of the output from these foreign manufacturing plants in 1962 was sold in the domestic markets of the countries where the plants were located, as indicated in the chart. Only \$1.4 billion, or 5 percent of the total, came to the United States, and 41 percent of these imports consisted of paper and allied products. Transportation equipment, primarily automobiles, accounted for the largest sales total (\$6.7 billion) and the largest amount sold in third countries (\$865 million).

Gross National Product

The nation's output of goods and services rose to a seasonally adjusted annual rate of \$588.5 billion in the third quarter of 1963, according to a preliminary estimate by the Council of Economic Advisers. The gain of \$8.9 billion over the previous quarter continued the steady expansion into new high ground after recovery from the 1961 recession low of \$501 billion.

During the third quarter of this year personal consumption continued its upward movement, although dur-

able goods purchases showed a decline, the first in over two years. Private investment again reached a high, \$83.9 billion, as construction surged up to a new record and inventory accumulation continued.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(Seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1963	2nd Qtr. 1963	3rd Qtr. 1962
Gross national product . . .	588.5	579.6	556.8
Personal consumption . . .	374.3	370.4	356.7
Durable goods . . .	50.5	51.0	47.7
Nondurable goods . . .	168.5	165.9	162.5
Services . . .	155.3	153.5	146.6
Domestic investment . . .	83.9	80.7	78.9
New construction . . .	47.7	45.8	46.0
Producers' durable equipment . . .	31.7	30.7	29.3
Change in business inventories . . .	4.5	4.3	3.6
Nonfarm inventories only . . .	4.0	3.6	2.8
Net exports of goods and services . . .	4.3	4.8	4.1
Government purchases . . .	126.0	123.8	117.0

INCOME AND SAVING

National income . . .	n.a.	474.6	455.5
Personal income . . .	465.2	459.9	444.5
Disposable personal income . . .	404.4	400.0	386.5
Personal saving . . .	30.1	29.6	29.7

* Preliminary estimates by Council of Economic Advisers.
Source: U.S. Department of Commerce.

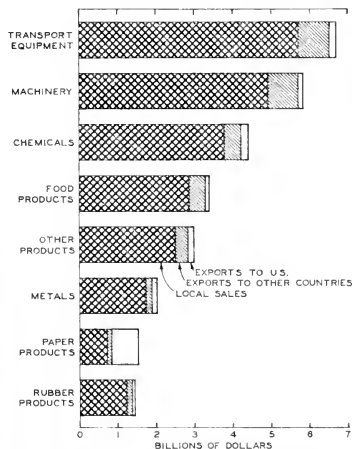
Current Monetary Policy

By the close of the third quarter of this year, total bank loans and investments had increased \$12.6 billion since the first of the year to reach an all-time high of \$240.7 billion. This credit expansion has come during a time when monetary authorities have been trying to pursue the twin objectives of supporting the current business recovery and minimizing our balance-of-payments difficulties. This dual policy has been implemented by raising short-term interest rates in order to induce foreigners to hold short-term capital here while at the same time holding down long-term interest rates in order to encourage domestic investment.

Long-term rates have held stable since mid-1962 when commercial banks were authorized to increase their interest rates on time and savings deposits. The higher rates paid on savings caused more money to flow in than the banks needed for loans and the excess of available funds led commercial banks to increase their investment in municipal securities and mortgages, thus exerting downward pressure on the rates of return on these assets. This shift in monetary policy has placed the banking system in a somewhat different position from that of other postwar periods of business expansion. The usual trend of an increasing demand for loans and a more restrictive monetary policy has not materialized. The over-all loan-deposit ratio now stands at a level comparable with the 1960 expansion peak, but bank holdings of short-term Treasury securities have declined by \$6 billion during the year so that the ratio of such securities to deposits is only a little above the low of the summer of 1960.

The international phase of our monetary policy has been somewhat less successful. Treasury bill rates, which were held at about 2.3 percent from late 1960 to late 1961, moved up by stages to 2.9 percent in the first five months of this year and have recently gone up to 3.4 percent. However, the outflow of short-term capital exceeded \$2 billion last year and for the first six months of this year the net outflow was about \$500 million.

SALES BY U.S.-CONTROLLED PLANTS ABROAD



Source: U.S. Department of Commerce, *Survey of Current Business*, October, 1963, p. 20.

THE GUAYANA IN VENEZUELA'S DEVELOPMENT

JOSEPH D. PHILLIPS, Research Professor

Throughout Latin America, governments have recognized the need for economic development to raise the standard of living of masses increasingly impatient with their poverty-stricken existence. This need is given formal recognition in the treaties underlying the Alliance for Progress. Although some of these governments have been unwilling to take even the first steps necessary to achieve the goals of economic development set forth, all of them profess their dedication to the accomplishment of these objectives.

Before World War I the Latin American countries were mainly confined to primary production and depended almost entirely upon imports to meet their demand for industrial products. During the two World Wars, difficulties in obtaining imports from the industrial countries stimulated some light manufacturing. To a lesser extent commercial policy had the same effect in the interwar period. After World War II, the drive for expansion of industry intensified. This development took place primarily in the expanding urban centers and was largely confined to the consumer goods industries.

However, the opportunities for economic development through expansion of consumer goods industries have been largely exhausted for the present. In many of these, capacity exceeds the markets provided by present income levels. Dependence upon imported raw and semifinished materials and components strains the supply of foreign exchange produced by the export of a few primary products. In addition, the unplanned concentration in the older urban centers, particularly the capital cities, has attracted the rural population to these areas in numbers beyond the capacity of these industries to absorb them, creating armies of unemployed workers living in shack settlements in and around these centers. The hinterland was left to agriculture and to mineral exploitation. The latter activity is almost wholly in the hands of foreign enterprises producing mainly for export, providing little domestic employment and contributing to the national economy mainly through tax and royalty payments. In some cases the prospect for such payments is one of absolute or at least relative decline; in others the day of exhaustion of the raw material base is not far distant.

The resort, therefore, is to development of heavy industry complexes that can supply a major part of Latin American requirements of basic metals, chemicals, and capital equipment. In this way they hope to break loose from their dependence on the advanced industrial countries and embark upon the course of economic development that everyone agrees is necessary.

The Importance of Guayana

One such heavy industry complex now in the course of development is located in the sparsely populated Guayana region of eastern Venezuela (see map). The development program is centered on the new city of Santo Tome de Guayana at the confluence of the Orinoco and Caroni rivers. It is here that the new government-owned steel mill and hydroelectric power plant are located. Here too

are the iron-ore loading facilities of Iron Mines of Venezuela (Bethlehem Steel) and of Orinoco Mining Company (U.S. Steel). Both companies bring ore by rail from mines in the rich reserves to the south for direct loading of ocean-going ore ships. The town of Puerto Ordaz developed by Orinoco Mining Company is now a part of Santo Tome de Guayana, as is the old town of San Felix. The population of this city area increased from about 3,800 in 1951 to over 50,000 in 1962.

Santo Tome de Guayana is destined to become the major supplier of basic metals for the Venezuelan economy. The region will soon be an important source of hydroelectric energy for other areas. Plans call for it to become the principal supplier of certain types of heavy machinery and equipment. These are all things that the expanding Venezuelan economy needs. In the past, foreign exchange earnings from petroleum exports provided essential imports. However, petroleum exports cannot be relied upon in the future. Competition from the Middle East fields and other new sources is exerting pressure on the price of crude petroleum and cutting into Venezuela's share of oil traded internationally. Exports of petroleum will certainly decline in relation to the expanded economy required to provide the growing population with a higher standard of living. Industries producing other goods for export and as substitutes for present imports must be developed if Venezuela is to move ahead as planned.

The four-year "Plan de la Nacion" for 1963-66 and the tentative projections to 1975 made by Cordiplan, the government planning agency, anticipate that the share of the petroleum industry in the gross national product of the country will decline from 22 percent in 1962 to 20 percent in 1966 and to 12 percent in 1975. The share of industrial production, including construction, power, gas, and water, is expected to rise from 23 percent in 1962 to 28 percent in 1966 and 41 percent in 1975. A gross national product of \$8.7 billion is projected for 1966, requir-

VENEZUELA AND THE GUAYANA REGION



ing an average yearly increase of slightly more than 8 percent during the four-year period. It is estimated that an investment of \$6.2 billion—\$5.4 billion from internal sources and \$800 million from abroad—will be required during the four-year period. Two-thirds of the total are expected to come from private sources, supported by government credit of more than \$440 million. The other third is to be invested mainly by the government.

In 1960 the Guayana region, which accounts for more than a fourth of the total area of Venezuela, had only 3 percent of the country's 7.5 million people and produced about 3 percent of its goods and services. Iron ore mining was the most important activity, accounting for 62 percent of the region's output and 15 percent of its labor force. Agriculture contributed only 6 percent to the region's output, although it absorbed 30 percent of the area's labor force. Preliminary programs anticipate that by 1975 the region will account for about 5 percent of the country's population, 7.5 percent of its total production of goods and services, 21 percent of its industrial production, and 19 percent of its exports. About 55 percent of Venezuela's output of basic metals, chemicals, and capital equipment is expected to be produced in the Guayana. These figures clearly indicate that the region is expected to play a leading role in Venezuela's industrial development. In fact, the essential diversification of Venezuela's industrial structure can only be achieved through the development of the Guayana region industrial complex.

Organization of Guayana Development

The responsibility for the integrated economic, social, and physical development of the Guayana region was placed in 1960 in the hands of a newly created governmental autonomous institute, the *Corporación Venezolana de Guayana*. The *Corporación* has its own president and board of directors. It was given a broad grant of authority to organize the resources of the Guayana, including the hydroelectric potential of the Caroni River, and promote the industrial development of the region.

The *Corporación*, with its subsidiaries, owns and operates the steel mill and the Macagua hydroelectric plant, as it will the larger Guri hydroelectric plant. It has entered into joint ventures on a 50-50 basis for the construction and operation of an aluminum reduction plant and for feasibility studies and possible joint production of elemental phosphorus, liquid ammonia, and ferroalloys.

The *Corporación* also owns much of the land of the city of Santo Tome de Guayana. One of its principal tasks is the planning and development of the city, which is expected to have a population of over 600,000 by the 1980's. In this it must attempt to integrate immediate decisions with respect to the provision of services and the location of residential, commercial, and industrial areas for a rapidly growing population and economy with the longer-term plans for a much larger city that will be an attractive place to live. Fortunately, the two rivers, the impressive Falls of the Caroni, and the rolling landscape provide a dramatic setting for the city that few others possess. To assist in the planning of the city and in other aspects of its work, the *Corporación* obtained the services of the Joint Center for Urban Studies of MIT and Harvard University.

Program for Metals and Power

The bases for the Guayana industrial complex are the rich iron ores of the region, the hydroelectric power potential of the Caroni, the nearby petroleum and gas fields

to the north, the deep-water shipping channel of the Orinoco, and the abundant water available from the two rivers. Proved reserves of iron ore amount to about 1.4 billion tons. The Cerro Bolivar mine of Orinoco Mining Company is a mountain of ore amounting to 400 million tons of proved reserves with an average iron content of 58 percent. Shipment of ore began in the 1940's, but the big outflow dates from the exploitation of Cerro Bolivar in the 1950's. In the peak year of 1960 some 19 million tons were exported. Preliminary targets call for exports of ore or its equivalent in reduced iron of 25 million tons by 1975. Emphasis will be placed increasingly on processing more of the ore in the Guayana. Discussions are under way with U.S. Steel Company and others for a project to reduce iron ore by a low temperature process using electric power or gas. It is expected that by 1975 10 million tons will be produced, four-fifths of which would be exported.

The Orinoco Steel Plant, construction of which was begun in 1957, is now virtually complete as originally planned. This fully integrated mill, one of the largest in Latin America, has an annual capacity of 750,000 to 800,000 metric tons of ingot steel and is designed for expansion of capacity to 1.2 million metric tons. It is presently equipped to turn out 600,000 metric tons of finished steel products; this capacity will be considerably increased after construction of a strip and sheet rolling mill scheduled to start in 1964.

The plant has nine electric iron ore reduction furnaces with an annual capacity of 600,000 tons of pig iron. Steel is produced in four 250 metric ton open-hearth furnaces. At present the plant is still in the shakedown stage, with a staff of more than 3,000 employees being trained by Koppers Company personnel under a consulting contract.

It is expected that 1963 output will reach 300,000 metric tons of steel. The "Plan de la Nación" calls for an output of 1 million metric tons in 1966. Preliminary projections anticipate a total of 4.5 million tons of ingot steel from Guayana mills in 1975. Production of finished steel products would amount to about 3.9 million tons, of which 1.3 million tons would be for export. The latter figure represents only a small fraction of the expected increase in Latin American steel demand.

Aluminum reduction is another element of the metals program for the region. The *Corporación* has contracted with Reynolds Aluminum for a joint venture in this field. Present plans call for a plant that would produce aluminum directly from bauxite by an electrolytic process that by-passes the conversion of bauxite to alumina. Production of 50,000 tons of ingots is planned for 1966. Projections to 1975 anticipate an output of 200,000 tons, of which 140,000 would be for export, primarily to other Latin American markets. The decisive factor in this project, one which is expected to give Guayana aluminum the best competitive position in Latin America, is the abundance of cheap electric power.

Production of several other metals is expected. Much of the region is part of an old geological shield similar to ones in other parts of the world that have proved to be sources of a great variety of minerals. Although it has long been exploited for its gold and diamonds, systematic exploration for other resources has only begun.

The lower Caroni River is estimated to have a hydroelectric potential of 10 million kilowatts, making it one of the greatest potential sources of such power in the world. The Macagua dam near the mouth of the river already has an installed capacity of 360,000 kilowatts. Construction has started on Guri dam some sixty miles up the

river; when its first stage is completed in 1968 it will have a capacity of 1.75 million kilowatts, about half of which will be available to the more populous regions of the country. Plans call for increases in its capacity in two stages, as demand for power warrants, to a maximum of 6 million kilowatts.

Within a radius of about 200 miles to the north of Santo Tome de Guayana are located fields with proved reserves of 2.2 billion barrels of oil and 320 billion cubic meters of gas. An oil line to the city has been installed and a gas line is planned.

A Heavy Machinery Complex

It is expected that the presence of the steel mill, the aluminum plant, low-cost electric power, inexpensive transportation, and other advantages will encourage the establishment of a number of enterprises to produce the simpler types of heavy machinery and equipment. The program in this field anticipates that foreign firms experienced in manufacturing these products will establish plants in the region or that Venezuelan firms can make licensing arrangements and obtain designs and technical assistance from such firms. Various types of joint ventures between foreign enterprises and private Venezuelan companies are contemplated.

The market projections on which this program is based reflect primarily anticipated increases in Venezuelan requirements for these products and only secondarily expected exports within the Latin American Common Market. Imports would still supply more than half of total Venezuelan requirements of machinery and equipment in 1975. Export targets represent a marginal participation in the Latin American market for these products.

Some Problems

A number of problems and uncertainties attend the programs for the development of the Guayana region. The Venezuelan economy may not grow at the rate required to provide the expected national market for the region's products. The high rates of growth in the past were largely the result of a growing volume of petroleum exports. As the Venezuelan economy becomes more diversified and more dependent upon the home market, it probably will be faced increasingly with the problem of maintaining effective demand so familiar in the more advanced industrial private enterprise economies. The projected export market for Guayana products depends heavily upon the development of the Latin American Common Market, of which Venezuela is not yet a member although the present government has indicated that it intends to join.

In addition, the private enterprise orientation of the Guayana program, as well as that of the national plan, makes its success dependent in large part upon the success of industrial promotion programs—that is, upon getting private firms to undertake specific projects that may be essential to further development. On the other hand, it should be noted that, compared with most other Latin American countries, the government has unusually large resources. More particularly, the Corporación Venezolana de Guayana owns the major industries presently operating in the region, except for the two iron ore mining companies. Its enterprises will generate increasingly large sums for investment in the region.

Finally, there is the uncertainty arising from the political conflict in Venezuela. Here one can only venture the opinion that whatever regime is in power is likely to push the development of the Guayana.

Relief from Wheat Subsidies

(Continued from page 2)

Advantages to the transport industries, however, are already evident. The expansion of tonnage carried applies to domestic carriers as well as to the world's shipowners. The big increase in demand for cargo space to carry wheat that is needed to make up for the short crops abroad has resulted in a 50 percent increase in international freight rates since last spring. The new prosperity for shipping, whether or not the ships sail under our flag, is expected to continue through the winter.

What About the Subsidy?

Some of the objections to the wheat sale apparently rest on the misconception that we shall be subsidizing Communist consumption. The fact is that our price support program was in effect for years before there was any proposal to sell to the Russians. It was adopted in the depths of the Great Depression, at a time when prices of primary products were collapsing all over the world, for the benefit of our own farmers, and this has continued to be its aim for a generation.

To keep foreign competition from undermining the high domestic market price, we have used import controls to keep foreign wheat out. This, however, is fully in accord with practices of other nations. Most countries protect domestic farmers by tariffs or other import controls or both. Even Great Britain, which imports about half of its food supply, protects its farmers on a substantial number of products, though not on wheat.

The victim of our price support system is the American consumer, who pays three ways in keeping prices high: He pays more for the bread and flour he purchases; he pays taxes to make up the losses the government incurs by buying high and selling low; and he pays taxes to cover carrying costs year by year as long as the wheat is held in the government stockpile.

Government holdings of wheat under the price support program reached a recent high in 1960 and have since been worked down somewhat with the help of restrictions on production as well as high exports. Even without the Communist purchases, the stockpile was expected to be reduced to about 1 billion bushels, or about 20 percent less than a year's production, by next July. With the additional demands now in prospect, it will fall much faster and may get down to about half a year's production, which might be considered a desirable carryover.

The farmers have been restive under the production controls, and last May they rejected an Administration proposal for still tighter controls coupled with high price supports. Therefore, no supports will be in effect on next year's crop in the absence of new legislation, and as a result, there has been some prospect that the price of wheat might fall all the way to the level of feed grains, or something not much above \$1 a bushel. Currently, the market has firmed somewhat and the price is above the level at which the government makes support purchases.

With further reduction in stocks, some further firming of prices is in prospect. If the world price goes up enough, there will no longer be any need to subsidize export shipments. Such a development would create a situation reasonably close to a satisfactory free market. This would in effect be an opportunity to get out from under the whole price support system for wheat, merely by letting the decision of the farmers stand. Only once before, with the end of price controls and the famine emergency in 1947, was there a similar opportunity.

V.L.B.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Wages in Nonmetropolitan Areas

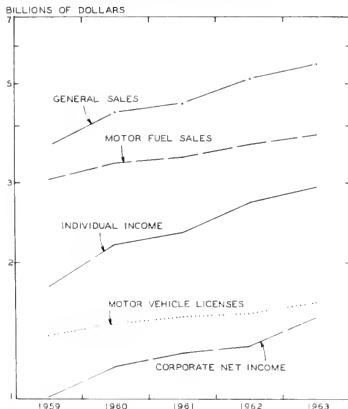
Nonmetropolitan area nonsupervisory workers living in the North Central states, which includes Indiana, Illinois, and Wisconsin, averaged \$1.77 an hour in June, 1962. Of the 2.3 million nonsupervisory workers living in this area, 26 percent earned less than \$1.25 an hour, 40 percent earned between \$1.25 and \$2, and the remaining 34 percent earned more than \$2. Approximately half of the workers held jobs in manufacturing industries where the average wage was \$1.98 an hour. Fewer than 10 percent of the manufacturing workers were being paid at the federal minimum of \$1.15 and almost 50 percent earned more than \$2 an hour.

In the nonmanufacturing industries the average pay was only \$1.55, and the distribution of earnings was quite different from that in the manufacturing industries. Almost a third of the nonfactory workers earned less than \$1.15 an hour, and fewer than a fifth received \$2. Data for the three major nonmanufacturing industry groups show that the 686,000 employees in retail trade averaged \$1.48, 8 cents less than those employed in wholesale trade and 18 cents less than those engaged in finance, insurance, and real estate.

State Tax Collections

Tax collections by state governments during fiscal 1963 totaled \$22.1 billion, up 7.5 percent from fiscal 1962. All principal tax sources shared in the upward movement with the largest increase recorded by the general sales and gross receipts taxes—\$422 million or 8.2 percent. Altogether, general sales and gross receipts taxes brought in \$5.5 billion, as indicated in the chart. This represented 25 percent of total taxes collected by state governments

STATE TAX COLLECTIONS,
SELECTED SOURCES, 1959-63



Source: U.S. Bureau of the Census.

although only 37 states used these taxes. Illinois ranked second in total collections of such taxes with \$550 million.

The next ranking source of tax revenue was the sales tax on motor fuels, which produced over \$3.8 billion, 4.9 percent more than in 1962. Sales taxes on tobacco increased 4.6 percent over 1962 to bring in \$1.1 billion. Motor vehicle license taxes yielded \$1.6 billion, 5.9 percent above the 1962 level. Revenue from individual and corporation income taxes totaled nearly \$4.5 billion, 10.6 percent more than in 1962.

All states except Colorado reported higher tax receipts with California and New York reporting the largest amounts of increase, \$190 million and \$177 million respectively. The greatest rate of increase was recorded by Wisconsin and Nevada, each with a 15 percent rise. Tax collections totaled \$1 billion or more in six states: California, \$2.6 billion; New York, \$2.5 billion; Pennsylvania, \$1.3 billion; Michigan and Illinois, \$1.1 billion each; and Texas, \$1.0 billion. Per capita state taxes ranged from \$208.37 in Delaware to \$66.44 in Nebraska.

Home Mortgage Credit

During the past two to three years standards in residential financing have undergone some further relaxation and the volume of outstanding home mortgage debt has continued to increase, reports the Federal Reserve Bank of Chicago. This has been the result of increased personal savings and the continuing influence of the FHA and VA programs for mortgage insurance and guarantee. Under the FHA and VA programs down payment requirements have fallen substantially and maturities have lengthened.

In addition, loans made during the past year and a half have tended toward longer maturities. Of loans issued on new properties in the Chicago area, 72 percent reported in the first six months of 1963 carried maturities of 22.5 years or longer, compared with 64 percent in early 1962. In the case of previously occupied properties, loans with maturities of 22.5 years or longer accounted for 28 percent of the total issued in the first six months of 1963 compared with 21 percent for the same period a year earlier. Moreover, loan-value ratios of 85 percent or more were found in 10 percent of the loans issued in the first half, compared with 6 percent a year earlier.

State and Local Retirement Systems

Retirement protection applies to nearly all full-time employees of state and local governments and to a considerable number of part-time employees, according to a recent report of the Department of Commerce. The most widespread form of coverage was through retirement systems administered by these governments, which reported receipts of nearly \$4.0 billion and assets of \$23.3 billion in 1962.

One notable development in recent years has been the continuing shift of retirement system investments toward nongovernmental securities. This trend continued in 1962, with the increased holdings of nongovernmental securities accounting for all but \$153 million of the \$2.4 billion rise from 1961 in the total financial assets of these retirement systems. At the end of fiscal 1962 nongovernmental securities made up 55 percent of the total financial assets compared with only 33 percent five years earlier.

LOCAL ILLINOIS DEVELOPMENTS

Unemployment Insurance Claimants

The Illinois Department of Labor has recently published a study of benefit claimants under the Federal Temporary Extended Unemployment Compensation Act (TEC), enacted in April, 1961, and effective until June 30, 1962. Long-term unemployment insurance was thus provided to nearly 100,000 persons who had exhausted their regular state claimant rights.

Differences in personal and family characteristics between the TEC and regular claimant groups in Illinois were small. The median age for both groups was approximately 41, although more TEC claimants were over 65 years of age. The TEC group also contained fewer women under age 25 and more women in the 35-44 age bracket. Roughly three-quarters of the TEC claimants were married, compared with two-thirds of the regular claimants.

About a third of each claimant group had been engaged in durable goods manufacturing, which accounted for somewhat over a fourth of covered employment. The construction industry accounted for 11 and 20 percent, respectively, of the TEC and regular claimants but only 6 percent of covered jobs. In wholesale and retail trade, transportation, communications, and public utilities, the proportions of claimants were well below the proportions represented in covered employment.

Within the period covered by the TEC act, important shifts took place in the industrial and occupational distribution of Illinois TEC claimants. The proportion of total TEC claimants in durable goods manufacturing declined from 41 percent at the outset to 26 percent in April, 1962. The share of the construction industry increased from 9 to 14 percent. Unskilled TEC claimants declined from 36 to 27 percent, and the semiskilled group declined slightly. The percentage in the skilled, clerical-sales, and service categories rose from 35 to 45, and the proportion of those

in the professional-managerial group was also somewhat higher.

Chicago's Electronics Industry

The July, 1963, issue of *Chicago Area Labor Market Trends* reports that at the National Electronics Conference (NEC) in Chicago in October, 1961, attention was called to the lagging research in new fields of electronics by major electrical machinery firms in the Chicago area. The per capita value of prime defense contracts awarded in Chicago between 1958 and 1960 was only one-third of the value of those awarded in Los Angeles; and electronics manufacturers had gained 41,000 workers in the Los Angeles metropolitan area in the two-year period as contrasted with only 11,000 in the Chicago area.

Chicago electronics manufacturers were reluctant to engage in risky research projects at the expense of continued profitable operations in the existing consumer and industrial markets. However, the NEC and various local and state industrial development organizations have encouraged Chicago area firms to bid on defense contracts to offset the loss of jobs in meat-packing and transportation equipment and also to help absorb the expected flood of young people into the labor market.

Despite these efforts, Chicago added only about 7,000 electrical machinery workers between mid-1961 and mid-1963, whereas Los Angeles had a net gain of 31,000. During the same period, however, the number of electrical machinery workers in Boston, Philadelphia, and New York showed net declines of 6,000, 3,000, and 2,000 respectively. Thus, in comparison with areas other than Los Angeles, the Chicago area has done well. In terms of production and profits, the electronics industry in Chicago actually had one of its best years in 1962.

Farm Income Rises in 1962

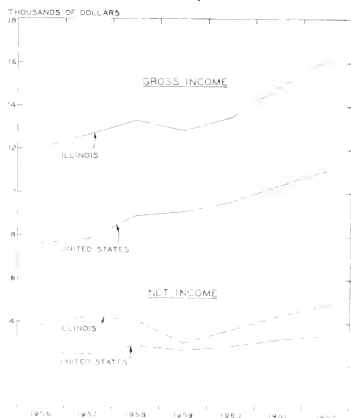
The United States Department of Agriculture estimates that realized gross and net income per Illinois farm in 1962 stood at \$16,095 and \$4,810, respectively. These figures represent advances of 9 percent and 4 percent over 1961. For the nation, realized gross and net income per farm rose to \$11,061 and \$3,414, with gains of about 7 percent and 4 percent (see chart). Net figures are derived by subtracting farm production expenses from the sum of cash receipts from farming, government payments, the value of farm products consumed, and the gross rental value of farm dwellings.

Higher Illinois farm income was due to higher grain prices and crop yields, to record-level livestock numbers, and to favorable feed-price ratios. Sales of crops held over from 1961 also contributed, particularly in southern Illinois. Cash receipts from farm marketings rose by 7 percent. Much of the increase came from high corn, soybean, and beef-cattle receipts. Government payments were \$24 per farm, about 6 percent more than in 1961. Farm costs, however, have been rising consistently.

Percentage changes in farm income were greatest in northern Illinois owing to high corn yields and high beef-cattle earnings. In southern Illinois, less favorable weather resulted in lower crop yields. Hog and dairy-farm earnings were down in both areas.

Illinois farms have been growing fewer in number and larger in size. There were 151,000 farms in 1962, roughly 5,000 less than in 1961. The number of farms in the 1,000-plus acreage group increased by nearly 13 percent.

REALIZED GROSS AND NET INCOME
PER FARM, 1956-62



Source: U.S. Department of Agriculture.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1963

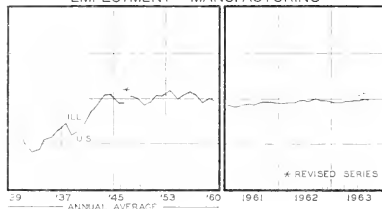
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000,000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
		\$58,733^a	1,453.3^b	\$ 594.7		\$24,473^a	\$18,538^a
August, 1963		+25.8	-3.0	-17.2	-8	+5.3	+3.0
Percentage change from...	Sept., 1962	+50.4	+4.9	-0.2	+5	+15.8	+15.2
NORTHERN ILLINOIS							
Chicago							
		\$48,409	1,063.3	\$ 420.2		\$22,743	\$15,829
August, 1963		+68.2	-2.8	-18.2	-7	+5.7	+2.5
Percentage change from...	Sept., 1962	+64.0	+3.7	-1.3	+5	+16.1	+14.3
Aurora							
		\$ 1,671	n.a.	\$ 10.8		\$ 97	\$ 190
August, 1963		+12.9		-15.0	n.a.	+1.0	-5.5
Percentage change from...	Sept., 1962	+209.4		+2.9		+12.8	+24.2
Elgin							
		\$ 585	n.a.	\$ 7.1		\$ 56	\$ 183
August, 1963		+56.8		-10.1	n.a.	-3.4	-1.1
Percentage change from...	Sept., 1962	+36.7		+0.0		+7.7	+69.4
Joliet							
		\$ 685	n.a.	\$ 11.0		\$ 96	\$ 117
August, 1963		-5.4		-19.1	-3	-9.4	-4.9
Percentage change from...	Sept., 1962	+14.4		-9.1	0	+3.2	+6.4
Kankakee							
		\$ 285	n.a.	\$ 6.1		n.a.	\$ 86
August, 1963		+27.2		-12.9	n.a.		+32.3
Percentage change from...	Sept., 1962	+24.5		+1.7			+13.2
Rock Island-Moline							
		\$ 903	n.a.	\$ 13.7		\$ 138^b	\$ 200
August, 1963		-13.2		-16.5	n.a.	-3.5	+37.0
Percentage change from...	Sept., 1962	-41.6		+7.9		+10.4	+36.0
Rockford							
		\$ 1,499	64.3^c	\$ 21.6		\$ 228	\$ 260
August, 1963		-43.1	-1.5	-16.0	-6 ^c	-5.0	-1.4
Percentage change from...	Sept., 1962	-4.5	+8.2	+4.9	0 ^c	+10.1	+14.0
CENTRAL ILLINOIS							
Bloomington							
		\$ 303	14.6	\$ 6.9		\$ 99	\$ 179
August, 1963		-55.4	-3.9	-11.5	n.a.	-2.9	+20.1
Percentage change from...	Sept., 1962	-66.3	+11.5	+3.0		+16.5	+42.1
Champaign-Urbana							
		\$ 593	22.3	\$ 10.1		\$ 106	\$ 167
August, 1963		+15.7	-5.9	-16.5	n.a.	+3.9	+16.8
Percentage change from...	Sept., 1962	+114.9	+17.4	-1.0		+15.2	+18.4
Danville							
		\$ 271	21.1	\$ 7.0		\$ 56	\$ 92
August, 1963		-48.6	-7.0	-15.7	-10	-1.8	+16.5
Percentage change from...	Sept., 1962	+37.6	+5.0	+2.9	-1	+7.7	+21.1
Decatur							
		\$ 486	46.6	\$ 13.1		\$ 144	\$ 144
August, 1963		-91.0	-5.1	-13.2	-8 ^c	+2.1	-5.3
Percentage change from...	Sept., 1962	+12.5	+9.4	+7.4	+7 ^c	+9.9	+23.1
Galesburg							
		\$ 140	13.0	\$ 5.1		n.a.	\$ 48
August, 1963		-70.1	-4.4	-13.6	n.a.		-5.9
Percentage change from...	Sept., 1962	-47.4	+10.2	+4.1			+4.3
Peoria							
		\$ 901	74.7^c	\$ 18.8		\$ 302	\$ 425
August, 1963		-41.2	-7.8	-17.2	-13	+5.6	+28.0
Percentage change from...	Sept., 1962	+20.3	+4.5	+1.1	+2	+20.8	+34.5
Quincy							
		\$ 528	17.2	\$ 6.3		\$ 61	\$ 86
August, 1963		+120.9	-5.0	-8.7	n.a.	+5.2	+8.9
Percentage change from...	Sept., 1962	+183.9	-5.5	+8.6		+17.3	+2.4
Springfield							
		\$ 474	51.0	\$ 16.3		\$ 162	\$ 337
August, 1963		-43.8	-15.3	-10.4	-8 ^c	+2.5	-11.2
Percentage change from...	Sept., 1962	-31.4	+6.7	+0.6	-1 ^c	+11.7	+11.2
SOUTHERN ILLINOIS							
East St. Louis							
		\$ 200	19.9	\$ 9.0		\$ 136	\$ 86
August, 1963		+115.1	-6.1	-15.1	n.a.	+3.0	+11.7
Percentage change from...	Sept., 1962	+222.6	+9.3	-3.2		+9.7	+34.4
Alton							
		\$ 568	28.1	\$ 6.0		\$ 51	\$ 43
August, 1963		+67.1	-7.6	-9.1	n.a.	+1.1	-6.5
Percentage change from...	Sept., 1962	+70.2	+12.9	+17.6		+15.9	+19.4
Belleville							
		\$ 232	17.2	\$ 5.6		n.a.	\$ 66
August, 1963		-60.6	-5.5	-17.0	n.a.		+8.2
Percentage change from...	Sept., 1962	-58.4	+12.4	+3.7			+22.2

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data for July, 1963. Comparisons relate to June, 1963, and July, 1962. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending September 13, 1963, and September 14, 1962.

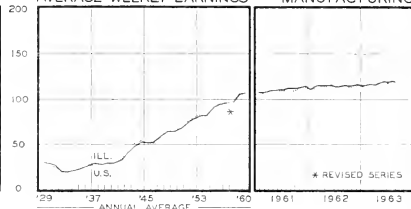
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

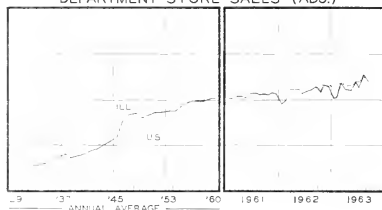
EMPLOYMENT - MANUFACTURING



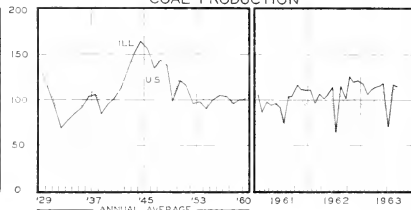
AVERAGE WEEKLY EARNINGS - MANUFACTURING



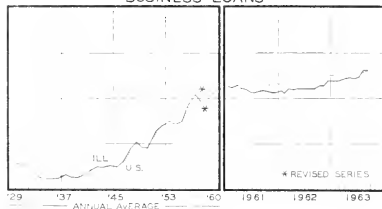
DEPARTMENT STORE SALES (ADJ.)



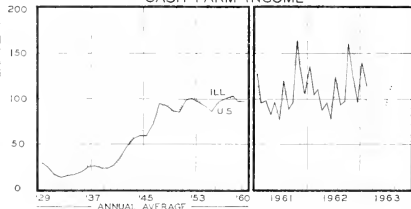
COAL PRODUCTION



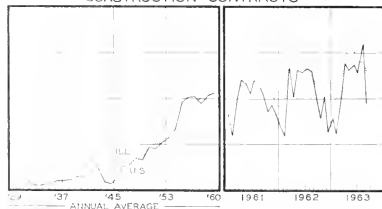
BUSINESS LOANS



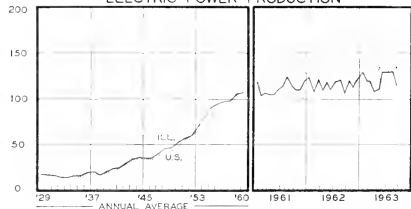
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 20

DECEMBER, 1963

NUMBER 11

HIGHLIGHTS OF BUSINESS IN NOVEMBER

Most indicators of business activity received a double jolt late in November—the usual one from Thanksgiving, which is taken into account by seasonal adjustments, and the unexpected, shocking one occasioned by the assassination of the President. The occurrence of two off-days in the final week of the month cut unadjusted figures very sharply in some cases. Aside from these declines, business activity was pretty well maintained. Steel output showed minor increases each week and finally reached a level of 2 million tons for the last week of the month. Automobile assemblies totaled 746,641, nearly 9 percent higher than in November, 1962, and the largest number for the month since 1955. One piece of automotive news that caused dismay was the announcement early in December that Studebaker will soon discontinue building cars in the United States. The FRB index of industrial production edged upward from 126.6 to 126.9 (1957-59 = 100).

Retail sales were off for the month, declining 1 percent from October's level to \$20.6 billion. This was still 2 percent above the November, 1962, figure, however. Durable goods sales dropped 2 percent from October; nondurable goods sales were less than 1 percent lower.

Capital Spending at Record

Business spending on plant and equipment during the final quarter of 1963 is estimated at more than \$40.7 billion (seasonally adjusted annual rate). This will be a new record but is down about 1 percent from the preliminary estimate. Nearly half of the \$750 million increase over the third quarter occurred in manufacturing, particularly nondurable goods, industries; a sizable advance was also made in transportation. Compared with the fourth quarter of 1962, capital outlays were up \$2.8 billion, and again nearly half of the rise was attributable to manufacturing.

For 1963 as a whole, the Department of Commerce and the Securities and Exchange Commission estimate plant and equipment spending at a little over \$39 billion. Two major manufacturing groups raised their investment sights during the year—motor vehicle producers and oil companies. Railroads also spent more than they originally expected. Commercial firms, on the other hand, spent less, and other industries acquired capital goods about as planned.

Projections show the same over-all total for the first quarter of 1964 as in the fourth quarter of 1963, \$40.7

billion, but the rise is expected to resume in the second quarter.

1964 Budget Still Stalled

With the end of the first session of the 88th Congress in sight and with half of fiscal 1964 gone, the federal budget for the year has yet to be passed by the Congress. By late November only four of the usual dozen appropriation bills had been passed; most departments and agencies were operating under authorization which permitted them to spend at their fiscal 1963 rates.

The failure to act on the 1964 budget makes the 1965 budget, due in January, more than usually uncertain; and further uncertainty is added by congressional inaction on the tax-cut bill. The most commonly quoted figure for the total is about \$102 billion, with much of the rise accounted for by new programs and program expansions already authorized by Congress. It is generally felt that even with the most determined effort, it will be difficult for the Administration to cut much from this total. A continuing effort is being made to hold down defense spending, which accounts for almost half of the budget.

Farm Income Outlook

Realized net farm income in 1963 is expected by the United States Department of Agriculture to fall 2 or 3 percent below 1962's estimated \$12.6 billion. The realized gross is anticipated to be about \$41 billion for the year, a record high, but the increase in gross has been more than offset by higher production costs. Income has been raised chiefly by larger crop receipts which reflect both greater volume and higher prices. Soybeans, corn, and wheat, particularly, have increased this year's cash receipts. For livestock and livestock products, lower average prices offset a record volume. Government payments have also been higher.

The prospect for 1964 is for a further decline in realized net farm income resulting from an expected cut in receipts and further advances in production costs. It is anticipated that lower receipts from wheat will more than offset increases in cash income from other crops. A substantially larger volume and higher prices are expected for soybeans. Receipts from livestock and livestock products are also expected to be somewhat higher. Payments to farmers under the various government programs will probably be lower in 1964.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The Review will be sent free on request.

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Inflation of Stock Prices

The quick rebound of stock prices from the sell-off following news of the President's assassination has been widely interpreted as an indication that business conditions are still sound. Before that, with the drive of stock prices to all-time highs in September, the market was said to be signaling good business for 1964. These views are in general accord with the practice of using stock prices as a business "forecaster," for example, by listing them as a "leading indicator."

At the same time, some analysts have been talking about the market's "mistake" of 1962. By the middle of that year, prices had dropped about 30 percent in some indexes, but corporate profits and industrial production merely leveled off for a few months and gross national product continued to advance. Thus, 1962 was a kind of mistake, or exception, but over the years the market has made a number of such false starts. If business failed to take the same turn, they have usually been short-lived. One that was more prolonged was the unsupported break in the summer of 1946; on that occasion, the high was not fully regained for almost 4 years, and at the lows of 1949, an reversal of undervaluation existed.

Reversal of such extremes has also been a recurring feature of the market over the years. The strong postwar upturn that began from the 1949 lows multiplied average prices fivefold or more, and at the 1961 highs, the overvaluation was roughly as extreme as the undervaluation of 1949. With the new advance of the last year and a half, the 1961 peak in price-earnings ratios has largely been recovered.

The Shift in Valuation

The justification for the high valuations now being placed on stocks is usually summed up in the word "growth." This term encompasses both the progress of the economy and the revaluation that has accompanied it in the past decade and a half of prosperity. The strong upward shift in valuation is compounded of two interacting elements which correspond roughly to the distinction between investment and speculation: the first is the expectation of future increases in production and profits; the second is the belief that stocks bought today will bring higher prices tomorrow. The justification for the second lies in the first, that is, in the ever rising trend of earn-

ings and dividends. But faith in that trend is itself reinforced by the second, as noted at the outset.

For a while, through the middle 1950's, "inflation" was cited as a primary reason for buying stocks. Prices were rising and many believed stocks to be the best hedge against depreciation of the dollar. This was also taken to be adequate explanation for dividend yields below bond yields, though the high yields on bonds were partly the result of the tight money policy of the Eisenhower Administration. Since 1958, however, there has been stability in the wholesale prices at which industry sells its output. So the "inflation" thesis is no longer adequate. But this has not kept the stock market from adding fifty percent to earlier highs.

This bidding up of capital values in a period of stable product prices is not confined to the stock market. The price of farm land has risen consistently, with net farm income barely holding steady and prices received by farmers tending to drift lower. The great boom in commercial construction is also symptomatic of a situation where belief in future opportunities to realize on limited fixed assets is widespread. If this belief is well founded, the bidding up of capital values is not illogical. It may be argued, in fact, that such action is better justified when commodity prices are stable, because then it is based on expansion of real production and there is less danger of undue speculation in the economy generally.

Where this line of reasoning slips a cog is in the possibility of overoptimism in the market itself. There is simply no way of knowing before the fact that progress will substantiate the current high hopes; a market breaking into new high ground has no firm reference base and is inevitably vulnerable. If progress falters, events will prove record high prices to be the result of speculative excesses. The latter was clearly the case in the late 1920's, a previous period in which stocks were bid up and up despite moderate downward pressure on commodity prices. Concern about the possibility of similar excesses is reflected in the recent action of the Federal Reserve Board in raising margin requirements to 70 percent.

Flow of Funds Into the Market

It would be a mistake, of course, to assume that psychological aberrations alone could result in such large shifts in market valuations. The philosophy of the market has always been "money talks!" A prolonged rise is hardly possible without a continuing net flow of funds from purchasers who have no better use for their cash — and credit.

Prior to the break of 1962, individual investors were channeling \$2 or \$3 billion a year into stocks, which represented a relatively cautious movement in view of the large volume of savings available. About a third of the total went directly into holdings for personal account; the larger portion was used to purchase the shares of investment companies. After the spring of 1962, individuals changed their policy sharply. They have since been withdrawing funds on direct account and have greatly reduced their buying through investment companies, so that there was little net inflow or outflow for the past year or so. Instead, the public has shown a strong preference for safer investments, particularly savings accounts guaranteed by the government. Even government savings bonds have had a renewal of popularity in this period, with sales exceeding redemptions for the first time in years.

A more important, and steadier, flow of funds into the stock market has been channeled through pension (Continued on page 8)

A NEW YEAR FOR CHILD WELFARE

The plight of the unfortunate is always a matter of concern to most people, but it is appropriate at this time of the year to give particular thought to the welfare of those children in our State who suffer misfortunes. This year is more than usually appropriate in that the new year will bring a change in government organization and administration of child welfare, which will allow assistance to be given to many who are now excluded from help.

One of the complicating factors in attempting to alleviate the lot of the unhappy or handicapped child is the lack of uniformity of cause. The types of situations which contribute to child misfortune seem to be nearly as numerous as the children involved. The effect of this is to make the work of alleviation and prevention difficult to comprehend, complicated to administer, and often frustrating. An unfortunate barrier is sometimes found in the parents themselves, who may refuse to accept the existence of a problem. On the other hand, oversimplification may occur. A lower standard of living, for example, does not necessarily bring unhappiness. Grinding poverty, however, does usually result in misery and a hopeless future. If child welfare involved a few clear-cut situations which could be attacked in an apparently businesslike and routine manner, there would probably be greater support for such programs. Unhappily, the complexities of healing individual human beings sometimes causes some of us to ignore them.

There are, of course, the clear-cut cases of orphaned, abused, or cerebral-palsied children who evoke much natural sympathy and concern. But below this level of critical misfortune there are the very many who struggle with difficulties such as speech and hearing defects, gnawing emotional problems, retardation, or the despair and indignities of material, cultural, and emotional poverty. These too often constitute the hidden part of the iceberg, the effects of which can be just as crippling as the more drastic and visible part of solidified misfortune.

Developments in Illinois

Child care programs in Illinois go back over a hundred years—a home for the deaf was authorized in 1839; in 1849 a residential school for the blind was started; in 1865 one for the feeble-minded; and in 1869 a home for orphans of the Civil War. In the 1880's and 1890's the provision of programs was smoothed by allocation of funds to institutions on a per-head-per-month basis, and this pattern has been continued since. During the last 20 years the State has reimbursed counties for half of their dependent-children costs, but even so some counties have never participated in this program. An additional complication is that for some applications, federal matching funds are available.

The entire pattern of child welfare in the State has grown to complex proportions owing to the many government branches and agencies and private institutions involved. In some respects Illinois has become a "private agency" state, with the public authorities purchasing care from private agencies. Even with the support of such funds, these institutions have in the past relied heavily

upon direct assistance from the interested public. Such funds are now dwindling, however, and the government must be turned to. The extent of past private participation is reflected in the fact that there are at present 130 voluntary children's agencies in the State, the costs of which are being borne more and more by the governments.

The functions of the Illinois Department of Mental Health grew to encompass a wide range of services covering child welfare (which started in 1905), mental illness, and handicapped children. In 1920 a vocational rehabilitation program was started with federal support. As early as 1909, an Institute for Juvenile Research was established; in 1953 coverage of delinquency was expanded by the setting up of the Illinois Youth Commission. The Northern, Southern, and Eastern Illinois universities provide counseling and guidance, and the University of Illinois has special services for crippled children.

The financial aid programs of the Public Aid Commission for children have increased to the point where it is now the largest public or private agency involved. In addition to assistance in maintaining the necessities of life, the commission provides guidance and training which contribute to the improvement of the family situation.

The newly created Department of Children and Family Services will facilitate administration, and its legislative authority allows it now to serve children whose parents do not hold veteran status. The guidance services and assistance to be administered by the department will include those which help to correct environmental deficiencies and will provide for a more wholesome future for the children concerned.

The Size of the Problem

The numbers of children involved are not small—they are, on the contrary, dreadfully high. There are upwards of 200,000 children on Public Aid Commission rolls—more than 5 percent of all the children in the State. The Child Welfare Division of the Department of Mental Health is concerned with about 39,000 children. Some 3,600 of these are a direct responsibility in private homes and institutions, while the remainder are in licensed institutions, day centers, and the 8,000 foster homes which are such an important link in the chain.

In the area of mental health it was recently estimated that there are 1,500 children in the State who should have residential health care but who have nowhere to go. New institutions will help to reduce this waiting list. The mental health bill introduced by the late President, and passed by Congress, should stimulate the establishment of more local centers.

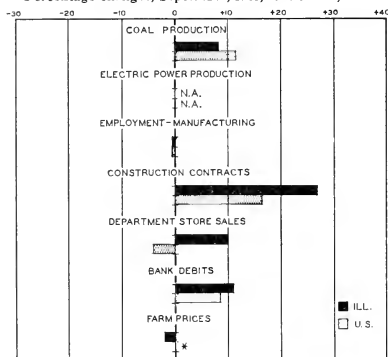
There is sometimes a tendency to think of all these problems as almost exclusively those of the big cities. The facts do not support this. Although concentrations of population produce greater absolute numbers, the problems are actually widely scattered about our State. What seems certain is that the cost to society of immediately servicing all the demands of the problem would be far less than the long-run cost of inadequate attention.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, September, 1963, to October, 1963



* Not seasonally adjusted. N.A., Not available. * No change.

ILLINOIS BUSINESS INDEXES

Item	Oct. 1963 (1957-59 = 100)	Percentage change from Sept. 1963	Oct. 1962
Employment—manufacturing ¹	99.8	- 0.3	+ 0.7
Weekly earnings—manufacturing ¹	118.9 ^a	- 0.2	+ 3.0
Consumer prices in Chicago ²	105.7	+ 0.1	+ 0.7
Life insurance sales (ordinary) ³	146.7	+17.0	+16.0
Dept. store sales in Chicago ⁴	112.0 ^b	- 6.7	+ 2.8
Farm prices ⁵	96.0	- 2.0	- 3.0
Bank debits ⁶	163.4	+11.0	+ 7.2
Construction contracts ⁷	122.1	+26.8	+55.3
Electric power ⁸	121.6	+ 4.2	+ 1.4
Coal production ⁹	124.5	+ 8.2	- 0.7
Petroleum production ¹⁰	99.0	+ 3.7	+ 4.6

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Agency, Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.

* Preliminary. ^a Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Oct. 1963	Percentage change from Sept. 1963	Oct. 1962
	Annual rate in billion \$		
Personal income ¹	470.3 ^a	+ 0.6	+ 5.0
Manufacturing ¹			
Sales.....	374.4 ^a	-10.3	- 6.3
Inventories.....	59.4 ^{a,b}	+ 0.5	+ 3.8
New construction activity ¹			
Private residential.....	29.4	- 2.8	+11.9
Private nonresidential.....	21.1	- 1.2	+ 3.4
Total public.....	21.3	- 6.3	- 4.5
Foreign trade ¹			
Merchandise exports.....	21.9 ^c	- 4.5	+ 3.6
Merchandise imports.....	16.8 ^c	- 4.3	+ 4.2
Excess of exports.....	5.1 ^c	- 5.0	- 1.5
Consumer credit outstanding ²			
Total credit.....	67.1 ^b	- 0.8	- 9.9
Instalment credit.....	52.3 ^b	- 1.0	-11.0
Business loans ³	41.6 ^b	- 0.7	+ 6.4
Cash farm income ⁴	43.6 ^c	+19.5	- 2.3
	Indexes (1957-59 = 100)		
Industrial production ²			
Combined index.....	127 ^a	+ 0.6	+ 6.2
Durable manufactures.....	126 ^a	+ 0.8	+ 6.4
Nondurable manufactures.....	128 ^a	+ 0.3	+ 5.7
Minerals.....	109 ^a	- 1.2	+ 4.0
Manufacturing employment ⁴	100 ^a	+ 0.1	+ 0.9
Production workers.....			
Factory worker earnings ⁵	102	0.0	+ 1.0
Average hourly earnings.....	115	0.0	+ 3.3
Average weekly earnings.....	118	0.0	+ 4.4
Construction contracts ⁵	150	+16.3	+25.9
Department store sales ⁶	113 ^a	- 6.6	+ 2.7
Consumer price index ⁴	107	+ 0.1	+ 1.1
Wholesale prices ¹			
All commodities.....	101	+ 0.2	- 0.1
Farm products.....	95	- 0.4	- 3.6
Foods.....	102	+ 1.3	+ 0.7
Other.....	101	+ 0.2	+ 0.2
Farm prices ³			
Received by farmers.....	100	0.0	- 1.0
Paid by farmers.....	106	0.0	- 1.0
Parity ratio.....	77 ^a	0.0	- 3.7

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ^a End of month. ^b Data for September, 1963, compared with August, 1963, and September, 1962. ^c Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1963					1962
	Nov. 30	Nov. 23	Nov. 16	Nov. 9	Nov. 2	Dec. 1
Production:						
Bituminous coal (daily avg.).....	1,385	1,668	1,619	1,593	1,608	1,490
Electric power by utilities.....	16,976	17,727	17,637	17,856	17,457	16,699
Motor vehicles (Wards).....	175	219	208	220	208	202
Petroleum (daily avg.).....	7,558	7,593	7,580	7,568	7,571	7,313
Steel.....	107.4	107.1	106.2	105.1	104.4	100.7
Freight carloadings.....	467	587	588	595	623	562
Department store sales.....	126	139	143	132	119	168
Commodity prices, wholesale:						
All commodities.....	100.2	100.3	100.6	100.2	100.2	100.7 ^a
Other than farm products and foods.....	100.8	100.8	100.8	100.7	100.7	100.7 ^a
22 commodities.....	94.9	95.5	96.6	96.2	96.2	92.9
Finance:						
Business loans.....	37,254	37,198	37,108	36,816	36,296	34,680
Failures, industrial and commercial.....	190	309	270	270	285	322

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for November, 1962.

RECENT ECONOMIC CHANGES

Balance of Payments

The balance of international payments during the third quarter continued to show a net deficit, but the \$250 million adverse balance, after seasonal adjustments, was the smallest since the last positive balance recorded in the second quarter of 1961. This marked improvement in the third quarter of 1963 was due chiefly to two factors. First, capital outflow slackened temporarily as a result of the Administration's request in midsummer for authority from Congress to impose a tax on foreign securities. Second, United States exports reached an all-time high of \$5.6 billion, seasonally adjusted, during the third quarter.

Since the economy began to expand from its recession low in early 1961, exports have risen from just over \$19.5 billion (excluding military sales) to about \$22.0 billion at annual rates. However, during the same period of time imports of goods have risen from an annual rate of about \$13.5 billion to a rate approaching \$17.5 billion. During the first nine months of this year United States gold reserves declined by only \$420 million compared with \$720 million during the same period of 1962.

Investment Yields

This year has shaped up as another year of heavy over-all demand for funds in the financial markets. However, because of ample supplies of loanable funds the yields on long-term taxable obligations of corporations and governments have edged up only slightly this year, as indicated in the chart, and are still below early 1962 levels. Both the general decline of long-term interest rates during 1962 and the advance of most of these rates during 1963 can be attributed to factors affecting the supply of funds, such as changes in the flow of funds to financial intermediaries, changes in monetary policy, and

revisions in the interest rate expectations of lenders as business conditions fluctuate.

The heaviest demands on the capital markets during the first nine months of this year were made by state and local governments and mortgage lending institutions; commercial banks were able to meet this demand since corporate requirements for capital were met by increased use of internal funds. However, the yields on common stocks have fallen this year as stock prices have increased faster than dividends. Nevertheless, common stock yields have remained somewhat higher than they were in December, 1961, when stock prices were last at a peak. The average yield on stocks, which at that time was just under 3 percent, increased to 3.8 percent in June, 1962, receded to 3.3 percent in January of this year, and reached a low of 3.06 percent in September.

Consumer Finances

Consumer purchases of houses and durable goods continued at record rates during the third quarter of this year. Nonfarm residential mortgage loans reached an all-time high of \$38.5 billion at seasonally adjusted annual rates, 3 percent above the second quarter and 20 percent above the figure recorded for the third quarter of 1961. Purchases of autos and other durables showed little change, remaining at about the \$51 billion rate of expenditure for the second quarter. However, the willingness of consumers to borrow continues to show an increase as the ratio of consumer credit extensions to disposable personal income reached 15 percent, compared with 14 percent a year ago.

Consumers continued to cut back on their saving through commercial bank deposits while adding to their holdings in savings and loan associations. In addition, the volume of debt repayments continued to move up during the third quarter, reflecting the heavy volume of consumer and mortgage debt incurred in the recent past.

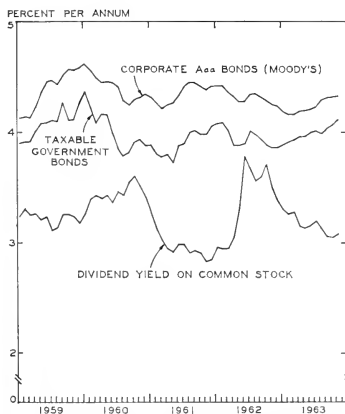
Corporate Finance

Corporate investment in plant and equipment rose \$2.0 billion during the third quarter to a total of \$34.5 billion at annual rates. Investment by public utilities, commercial firms, and manufacturing firms showed substantial gains. In addition, railroad outlays for investment purposes rose 20 percent over the previous quarter and reached a rate equal to that of 1956. All industry groups participated in this latest advance except other transportation.

At the same time, internal funds of nonfinancial institutions rose about \$1.0 billion at annual rates during the third quarter; advances in retained earnings and in depreciation charges each contributed half of the total. External financing (including short-term bank loans) was about the same during the third quarter as in the previous quarter, although there were some shifts in its composition. Funds raised through bond and stock issues were unchanged but short-term bank loans fell slightly and mortgage financing increased somewhat.

Since the 1960-61 recession ended, corporations have depended less on stock and bond flotations and on commercial bank loans than for any similar postwar expansion period. In addition, they have increased their liquid asset holdings, whereas in previous postwar expansion periods liquid assets were kept low by the relative scarcity of internal funds.

BOND AND STOCK YIELDS



Source: Council of Economic Advisers, *Economic Indicators*, various issues.

UNWANTED WORKERS AND MANPOWER PLANNING

WALTER H. FRANKE, Associate Professor of Labor and Industrial Relations

In June, 1959, Armour and Company announced that they would shortly close six of their meat-packing plants located in various parts of the United States. One month later they began closing down operations and terminating workers, and within a month all but a few of the 5,000 production workers in these plants had been separated from their jobs. Surveys of the workers in three of these plants, located in East St. Louis, Illinois, Columbus, Ohio, and Fargo, North Dakota, were made one year and again two and one-half years after the shutdowns. The surveys revealed unemployment rates among the displaced workers up to 12 times the community unemployment rates as well as extensive downgrading among those who had found employment.¹

After the Shutdowns

The impact of the shutdowns is shown most dramatically in the unemployment rates of the displaced workers. The following tabulation shows the percentage of those still in the labor force who were without jobs one year and two and one-half years after the shutdowns:

	East St. Louis	Columbus	Fargo
One year after shutdown	65%	34%	31%
Two and one-half years after shutdown	53%	25%	31%

In these three situations, between one-third and two-thirds of the displaced workers were unemployed after a year in the job market. After two and one-half years, over half were still without jobs in East St. Louis; and in Columbus, where the most favorable labor market adjustment was made, one-fourth were still unemployed. It appears reasonable to conclude that many of those out of work after two and one-half years would never hold a regular full-time job again. They are among the "unwanted workers" whose skills and experience are in insufficient demand.

The impact of the shutdowns had dimensions other than unemployment and its economic consequences. Most of those who did find jobs within a year were doing work far different from what they were accustomed to at Armour. Most had spent all of their working lives in Armour plants or other factories and preferred and looked for work similar to their old jobs. Few, however, found jobs either in the same industry or in the same occupation. Only about one in ten found meat-packing jobs. Although changes in skill level are difficult to measure, it is clear that many downward shifts in skill occurred. As an example, fully 10 percent of those working were employed as janitors and custodians. Between 40 percent (Columbus) and 65 percent (Fargo) described their jobs as being entirely different from their work at Armour.

Average pay on the post-shutdown jobs was about 15 percent below hourly wage rates at Armour, and many workers suffered much more substantial reductions. About a third of the East St. Louis and Fargo workers had earnings of less than \$1.50 an hour. At Armour hourly wages had been \$2.20 on the average.

It is a difficult and often demoralizing adjustment for

a worker to leave an occupation for which he has many years of experience and to accept employment in a lower-skilled job which offers little or no opportunity for anything better. As unattractive as many of the jobs were, however, the workers holding them were better off than the unemployed.

Who are these workers who had such a difficult time finding a suitable market for their labor? They had been, first of all, long-tenure employees at Armour. On the average they had worked for Armour from 10 (Fargo) to 17 (East St. Louis) years. Many had 20 to 30 years of service. The typical worker was a married man with two to three dependents, was at least 45 years old, and had about a grade school education; the chances were better than even that he owned or was buying a home. More importantly, nearly all of his skill and experience was in a relatively narrow line of work that had little applicability in industries other than meat-packing. He lost his job at a time when his financial obligations were still very great, and he lacked the training and education to offer the market the kind of service currently in demand.

The Problem of Worker Displacement

The Armour experience is illustrative of two major problems often associated with the worker displacement caused by technological and market changes: prolonged unemployment and the downgrading of worker skills. The forces that brought about the displacement of the Armour workers are not unique to the meat-packing industry. Technological and market changes are bringing about displacement of workers in many industries and causing drastic changes in the nature of labor demand. Workers displaced in railroad transportation, mining, agriculture, textile, and other industries have also found little demand for their services.

The problem is complicated by the very drastic changes occurring in the occupational distribution of labor demand. In the six years from 1956 to 1962, employment in manufacturing declined by half a million. Within manufacturing the number of blue-collar jobs declined more than a million (8 percent) whereas employment in white-collar occupations increased more than 500,000 (14 percent). In all industries, blue-collar employment was at about the same level in 1962 as it had been 15 years earlier, whereas white-collar employment rose by nearly 50 percent. The most rapid growth in white-collar employment has been in the highly trained professional and technical occupations.

The extent to which high levels of unemployment are the result of rapid worker displacement and shifts in labor demand cannot be measured with precision, but it is almost certain that they are a contributing factor in the difficulty this country has experienced in reducing unemployment to "tolerable" levels. The year 1963 is the sixth consecutive year that unemployment has equaled or exceeded 5.5 percent of the labor force. During the same period the long-term unemployed, sometimes referred to as the hard-core unemployed, have become a larger proportion of total unemployment.

To what extent displaced and experienced workers are downgraded in skills as a result of technological change is also difficult to document. The worker with obsolete skills does not show up in any statistical series. However,

¹ The findings of these and similar studies in Oklahoma City, Oklahoma, and Peoria, Illinois, together with an analysis of worker displacement problems and their policy implications, are contained in Richard C. Wilcock and Walter H. Franke, *Unwanted Workers—Permanent Layoffs and Long-Term Unemployment* (New York: The Free Press of Glencoe, 1963).

Seymour Wolfbein, Director of the Office of Manpower, Automation, and Training, estimates that 200,000 jobs a month, or about 2.4 million a year, are "affected" by technological change and automation. Whether the "effect" is unemployment, upgrading, or downgrading of workers depends, among other things, on the nature of the innovation and the qualifications of the workers involved. What is certain is that the new jobs will consist of different duties, and in some cases workers will not be qualified to assume them. It can also be anticipated that as the rate of innovation accelerates, the effects will not be confined to blue-collar, manual workers. Office workers, and even managerial and technical workers, are likely to find that their skills and experience become obsolete as new applications of technology and science are introduced.

Two major questions are posed in considering the likelihood that we will be able to meet the problems of unemployment and downgrading of workers that are associated with rapid worker displacement and shifts in the demand for labor. One is whether the economy can expand rapidly enough to provide the total number of jobs required to employ a growing and more productive labor force. The other is whether the qualifications of the labor force can keep pace with a rapidly changing technology.

The Company's Role in Manpower Planning

Exploration of the many implications of these questions is not possible here. They get into important issues of monetary and fiscal policy, such as the Kennedy tax-cut proposal, and have many ramifications concerning the future of a highly automated society. All that will be attempted is a brief discussion of some approaches to manpower planning that might merit immediate consideration.

One of the lessons of the Armour experience is that it is difficult to deal with the problem of displacement after the worker has been separated from his job. Unemployment itself is a severe handicap to finding a job. A worker with a job is much more likely to be successful in finding a new job than a worker without a job. And if the displaced worker's experience has been largely confined to tasks which require only a very narrow range of skills, prospects for new employment are likely to be bleak unless steps have been taken over a period of time to prepare him for new assignments. When Armour closed a plant in Oklahoma City in 1960, the Armour Automation Fund Committee conducted a special job-search and retraining program on behalf of the displaced workers. As a result of this experience, the Automation Committee concluded that sudden "crash" programs were likely to benefit only a small minority of displaced workers, especially when the situation involved middle-aged individuals with limited formal education. (See *Progress Report*, June 19, 1961, p. 7.) If remedies for the consequences of displacement are delayed until the displacement occurs, it appears that substantial investment of resources will be required to prepare workers for new jobs.

Clearly the best medicine for the problems associated with displacement is preventative, that is, to prevent as many permanent separations of workers from their jobs as possible. While permanent separations cannot always be avoided, it is not clear either that all of the displacement that occurs is necessary. One might question, for example, the propriety of layoff policies in many situations. Seniority rules often require layoff of experienced workers in one department while new hires are occurring in others. Or in multi-plant companies new workers are

hired in one plant while experienced workers are displaced in another. In other situations, plants are shut down in one location while new plants are built, opened, and staffed with new and inexperienced help. Whatever the reasons for these practices, they cannot be viewed as necessarily the only or even the preferred method of managing manpower.

The first requisite of rational manpower planning is serious consideration of the manpower effects of projected technological changes. Some companies do give a high priority to keeping displacement at a minimum. The *Wall Street Journal* of December 18, 1962, reports, for example, the deliberate policy of DuPont "to locate plants for new products close to old plants where employment is expected to decline." Such a policy demands careful and long-term efforts to prepare workers for the new jobs. While obsolete plants cannot always be replaced with new plants in the same location, other methods of reducing the amount of displacement associated with changes in technology are possible. Inter-plant and even inter-company transfer of workers, while possessed of many difficulties, might be feasible in a number of situations where reductions in manpower are necessary. In some instances, of course, the necessary reductions in manpower can be accomplished through attrition.

It should be recognized that any gains in the reduction of displacement are made at the expense of new entrants to the labor force — primarily youngsters looking for work for the first time — unless the total number of jobs is expanding sufficiently to accommodate the growth in the labor force. This, however, is a facet of the manpower problem requiring other approaches for its solution.

Adapting Workers to New Jobs

Regardless of efforts to reduce displacement of workers, it will continue to occur. The challenge is whether the work force can be prepared for the changes that will occur so that unemployment and downgrading can be minimized. The Armour Automation Committee concluded that a "carefully planned, continuing education program . . . would help employees develop abilities and skills which would improve their positions in the labor market in a time of crisis." Others have attempted to develop the idea of "continuing education," but there is little evidence yet that companies or unions generally are giving the matter serious consideration. Some companies apparently do conduct extensive training and retraining programs designed to enable workers to shift to new products and more highly skilled jobs. To increase the mobility of its employees, for example, the DuPont Chambers Works in Deepwater, New Jersey, "makes a practice of moving its production workers into other jobs for several weeks at a time to broaden their training." The company also sponsors basic education courses for workers with limited formal education and encourages some of its older employees to enter apprenticeship programs to increase their skills.

It has been suggested that, as part of a "continuing education" program, arrangements should be provided for employees to return to school periodically — perhaps every five years — to retool themselves for the new technology. Most proposals of this kind are directed primarily to the upgrading of managerial personnel, although the concept of continuing education can be applied as well to manual, clerical, and other workers.

The essential point is that workers can no longer assume that they can plan, be educated for, and become

experienced in one occupation that will serve as a career for a lifetime. A more realistic view is that many workers can expect that their worklife will consist of two or more careers. If extensive unemployment and severe occupational downgrading are to be avoided when these career shifts become necessary, a continuous process of training and education in relatively broad areas of competence will be required.

The manpower planning required to bring about this pattern of manpower upgrading will require the same kind of advanced planning and information on the nature of future demand that is more common in making business decisions in other areas. Perhaps the most basic change required is in attitudes toward manpower management. Many technological innovations have been made with little regard for their manpower implications. Worker adjustment to change has been left largely to the impersonal operation of the market. Manpower problems have sometimes been allowed to drift unattended until their solution is virtually impossible. When the day of reckoning comes, a plant is closed or relocated, or attempts are made to eliminate entire occupations. Such moves are often met with massive resistance by the trade unions. Perhaps if manpower planning were given a priority similar to that given planning for capital investment, use of our manpower resources would be accomplished more rationally and we could yet attain the goal of a dynamic, productive economy that we all desire.

Inflation of Stock Prices

(Continued from page 2)

funds and insurance companies. It has usually run to \$3 or \$4 billion a year and merely wavered a little in 1962. Endowment funds also have shifted policy drastically since World War II and now have well over half of their portfolios in stocks. In all these cases, investment policies have pursued the lure of high returns which is implicit in the theory that long-term growth will eventually more than compensate for any losses incurred during temporary setbacks.

Industry, too, has contributed to the advance. It favored stocks for pension funds, since paper profits reduced the need for cash payments to meet funding requirements. It purchased stocks of other companies it wished to control and perhaps to merge. It set up arrangements to buy its own stock on behalf of executives, paying half of the cost, with payroll deductions for the other half, and in some cases these purchases have been a substantial portion of the total trading in those stocks. More recently, many companies have found themselves excessively liquid, and some have bought their own stock, perhaps for no better reason than the chance to pick up shares offered at less than book value.

It seems clear that the general uptrend in prices has had ample support from various sources of funds that sought new or enlarged holdings. It is not essentially different from the 1920's except in the consumer sector. In that earlier boom, individual investors and speculators strongly concentrated on stocks and borrowed heavily to carry them. Borrowing is again high in absolute amount but low in relation to total values, and the public generally is holding aloof from the market. Nevertheless, the total flow of investors' funds into other financial assets is very high in comparison with the early postwar years. This postwar shift reflects, as before, a situation in which other uses for savings have been satisfied and the accumulation of financial assets has gained offsetting emphasis.

The Role of Credit Expansion

The recent shift in saving policy has created another similarity to the late 1920's, one that concerns the contribution of the banking system to expanding business and raising capital values. Again there has been a period of relative stability in demand deposits and a relatively large expansion of time and savings deposits. From the public's point of view, the latter do not represent "savings" in the true meaning of the term but rather liquid holdings that gain an interest return (in contrast to demand deposits, on which no interest is paid).

The result has been an inflation of bank credit and debt. The savings institutions have been under pressure to put consumer and business funds to work. The banks did not wish to lose their share of money and capital markets and were granted the right to pay competitive rates on deposits. These they proceeded to lend, and in the usual fashion, part was bound to come back to them for relending. The money lent goes through the hands of consumers and of business concerns, some of it even goes through the stock market, until eventually it comes to a saver who is content merely to hold it in his account at the bank. It is unthinking to view the banks' role only in terms of putting savings to productive use and to forget that reserve ratios are lower on time than on demand deposits. This kind of credit expansion is no different from that which proceeds by way of demand deposits; it is merely slower and more extreme.

Savers have in effect thrust the means for expansion upon the banks, and the fact that the banks had to incur interest costs merely made them seek loans with a higher return. These were mainly mortgage loans and consumer loans, and the stimulus to activity which the loans helped to provide is apparent in the heights recently reached by housing starts and auto sales.

Each loan, looked at from the other side, is also a debt, so mortgage and consumer indebtedness has soared correspondingly. In recent years, the gross increase in these forms of debt has exceeded the total construction cost of new houses on the one hand and the total sales of consumer durables on the other. Furthermore, largely as a result of these developments, total debt, public and private, has been rising faster than gross national product.

There can be no doubt that the continued advance of the economy in recent years has partly been bought with the expansion of credit and debt. Whether or not this represents a basis for permanent growth is a moot question. Nevertheless, as long as the prospect of rising business remains appealing, the bidding up of capital values can continue. In a period of ample cash accumulation and ready resort to credit, it does not take much evidence of progress to stimulate confidence. It is the part of wisdom, however, to recognize that trends in prices, and in the flows of cash and credit which support those trends, may be reversible. The short-lived correction of 1962 may have eliminated some past excesses but has not eliminated the possibility of future setbacks. If so little evidence of business weakness could produce so large a correction, a real decline could lead to a more basic change in market appraisals.

As is usual in such situations, there are elements of both solid economic progress and ephemeral speculative psychology in the current inflation of stock prices. It is not easy to recognize which may hold the upper hand at any given moment or to determine how long it will take to re-establish a position after it has temporarily deteriorated.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Business Leasing Expands

Increased leasing of business facilities and equipment during the past five years is reported by the National Industrial Conference Board. However, companies continue to approach leasing in a cautious manner, with expensive office equipment, automobiles, and trucks accounting for most of the growth. On the other hand, there has been a tapering off in the leasing of such long-lived facilities as office buildings, warehouses, and tankers. The leasing of data-processing and automotive equipment showed the greatest gains over the past five years, with increases of 19 and 16 percent respectively.

Although the greater use of leasing is often attributed to the general growth of business activity, certain specific advantages are given for leasing rather than buying. Those most frequently mentioned are the lack of financing available to purchase the desired equipment and the need to avoid obsolescence, maintenance, service, and administrative problems. According to the Conference Board, the next five years will see a rise in equipment leasing, and more firms will enter the market as lessors as a result of an increase in funds for this purpose.

Job Mobility

In 1961, almost 8 million men and women changed jobs, according to a recently issued report by the Department of Labor. This job mobility affords one of the major ways the individual may adjust to economic developments. Among the many factors which impede or facilitate the movement of workers from one job to another are per-

sonal characteristics such as age, sex, and race; social factors such as educational level, marital status, and income level; institutional and environmental factors such as employment practices and home ownership; and individual desires such as job security and advancement opportunities. Job-changing was more frequent for young persons than for older workers, and men changed jobs more often than women. Among men, nonwhites had a higher rate of change than whites, but among women this pattern was reversed with nonwhites having a lower rate of shifting than whites.

During 1961 almost one-half of all job shifts reflected a major change in occupation and industry groups, with the largest proportion being concentrated among unskilled laborers. Workers in the construction industry had the highest rate of turnover of all industries (25 percent), but not many shifted to other industries. Even though two-thirds of all their changes resulted from job loss, most of the construction workers found other jobs in that industry. In manufacturing only 9.7 percent of the workers changed jobs; half of these persons eventually found jobs in other industries, which reflects the declining position of production worker employment relative to other employment. The highest rate of change for females in any major industry was 11.9 percent in the trade group. Part-time work and seasonal employment in retail trade help account for this high rate.

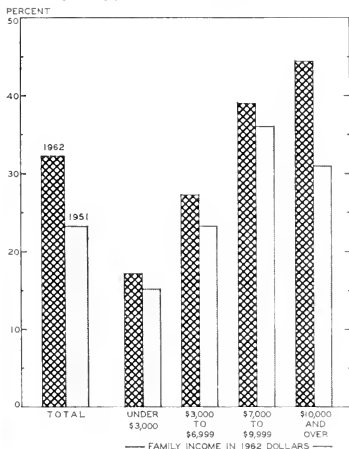
Working Wives

Some 13.5 million married women (one out of three) are presently holding jobs outside the home, 50 percent more than ten years ago when only one out of every four wives was employed. Of the total growth in the nation's labor force since the end of World War II, more than 60 percent has been accounted for by women and most of these are married.

This increase in the number of wives in the labor force has been most pronounced at the upper income levels, as indicated in the accompanying chart, which suggests that the wife's contribution to the family purse has been a major factor in moving families up the income scale. Among the factors that help to explain this increase in the number of working wives are the earlier age at which women marry and bear children, the rising level of education being achieved by women, and the need for office and other white-collar help.

During the past ten years, while employment rose for all categories, it rose most sharply for women over 35. That age group accounted for 88 percent of the entire increase in the married female labor force during the past decade, and the median age of working wives advanced 3.5 years to 41.5. There is also a connection between educational accomplishment and women's participation in the labor force. Of all the women who have attended college at any time, 50 percent go back to work some time after marriage but among those whose formal training never extended beyond elementary school only 25 percent return to work after marriage. Of all the working wives, 33 percent are employed in clerical or related jobs, 14 percent in professional and technical employment, and the same proportion in the service occupations. An additional 15 percent are classified as operatives, only 10 percent work as sales persons, and the rest are employed in miscellaneous occupations.

WORKING WIVES AS PERCENTAGE OF HUSBAND-WIFE FAMILIES



Source: Bureau of the Census, *Consumer Income*, October 21, 1963, p. 10.

LOCAL ILLINOIS DEVELOPMENTS

School Construction Plans

The Illinois Teachers' College Board has recently authorized numerous construction projects for the four institutions which it governs. Western Illinois University has been allotted \$5.7 million, but its building plans have not yet been made public.

Included in the \$10.7 million allotment for Northern Illinois University are \$6 million for two 13-story residence halls and a food service center, a \$2.3 million stadium, and a \$149,000 combination communications center and campus security office. Final plans for a new administration building have also been approved.

Illinois State University at Normal has been allotted \$9.6 million. Allocations include \$1.9 million for a university high school and a library addition and \$1.5 million for additions to classroom buildings.

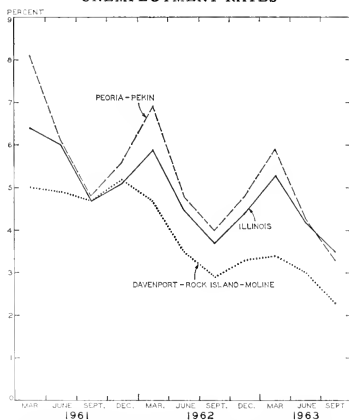
An allotment of \$5.4 million has been made to Eastern Illinois University. Of this, \$2.5 million is to provide an addition to the student union, a food services building, a physical plant building, residence hall improvements, and half of the cost of a physical education and recreation building. Preliminary plans indicate a 96-unit, \$990,000 housing project for married students and a classroom addition.

Public Aid Spending

According to the Illinois Department of Public Aid, reductions in public aid spending have been sought in order to avoid a predicted billion-dollar budget for 1970 and to hold current spending for 1963-65 below \$640 million.

Beginning in May, 1963, combined rolls for the five major public aid programs have been declining. In July, total recipients numbered roughly 417,400, showing a decline of about 3 percent over the two-month period.

UNEMPLOYMENT RATES



Source: Illinois State Employment Service and Division of Unemployment Compensation.

October relief rolls showed an insignificant decrease from July (0.2 percent). Available estimates for November show relief rolls numbering about 415,700. Important here is the fact that the eligibility of 16,000 single recipients was re-examined prior to the issuance of November relief checks. Increases in general assistance rolls, attributed largely to increases in unemployment in Cook County, are responsible for the relatively small over-all rate of decline taking place since July.

Ceilings placed on individual aid payments on July 1 were expected to save over 4 percent of public aid costs. In November the estimated average assistance per person was \$53.42, compared with \$54.36 in October, and \$54.65 in July. Total public aid spending in October, at \$22.7 million, showed only a slight decrease from the \$22.8 million spent in July, but estimated spending for November, at \$22.2 million, shows a decrease of nearly 3 percent from July. Total and average amounts of spending here are partially influenced by medical payments which are excluded from the aid ceilings.

Drought Conditions in Southern Illinois

Drought conditions in southern Illinois have been especially severe this year. Many areas have had record rainless periods exceeding 40 days in September and October. Farmers measure heavy losses in terms of reduced crop yields, fire damage, and money spent for water and livestock feed.

Emergency relief for eleven stricken counties — Clay, Gallatin, Hamilton, Hardin, Jefferson, Marion, Pope, Massac, Saline, Wayne, and White — has been sought. If relief is obtained, conservation reserve acreage can be released for use. However, since the government has already made payments to the farmers to put these acres into the conservation reserve, the farmers using these lands for grazing will have to make payments to the government equal to a fair value of the vegetation. Feed grains could be purchased from the Commodity Credit Corporation at 75 percent of federal support prices.

A positive measure to combat drought conditions over a longer period consists of the development of the 22,800-acre, \$36 million Rend Lake near Benton, which would serve roughly 30 communities in Franklin, Jefferson, Perry, and Williamson counties.

Seasonal Employment Gains

According to Illinois Department of Labor releases, the mid-September unemployment rate for Illinois declined seasonally to 3.5 percent. This figure was below earlier percentages for the current year and near the low for 1962 (see chart). Changes for the Chicago area tend to reflect the pattern for the State as a whole, but some other cities, including those shown on the chart, showed more rapid declines. The Davenport-Rock Island-Moline area shows consistently low unemployment rates.

Illinois nonfarm employment, approximately 3.7 million in mid-October, showed a net increase of 28,700 over October, 1962. Job losses in the construction and non-durable goods manufacturing industries have been offset by gains in durable goods manufacturing, and wholesale and retail trade employment. Furthermore, for 24 successive months, the employment level for each month has exceeded the level for the corresponding month of the preceding year. Thus consistent gains have been shown for the State.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1963

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000,000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
Percentage change from	Sept., 1963 Oct., 1962	\$62,226 ^a +5 9 +49 8	1,434 0 ^a -4 0 +6 1		+10 +2	\$27,174 ^a +11 0 +7 2	\$21,667 ^a +16 9 +17 7
NORTHERN ILLINOIS							
Chicago		\$47,989	1,017 0			\$25,211	\$18,709
Percentage change from	Sept., 1963 Oct., 1962	-0 9 +61 1	-4 4 +3 9		+11 +3	+10 9 +6 9	+18 2 +17 7
Aurora		\$ 1,637	n.a.			\$ 103	\$ 195
Percentage change from	Sept., 1963 Oct., 1962	-2 0 +57 0				+6 2 +9 6	+2 6 +17 5
Elgin		\$ 769	n.a.			\$ 62	\$ 219
Percentage change from	Sept., 1963 Oct., 1962	+31 5 +55 4			n.a.	+10 7 +5 1	+19 7 +49 0
Joliet		\$ 1,063	n.a.			\$ 110	\$ 136
Percentage change from	Sept., 1963 Oct., 1962	+55 2 +53 2			-5 -2	+14 6 +8 9	+16 2 +12 4
Kankakee		\$ 861	n.a.			n.a.	\$ 86
Percentage change from	Sept., 1963 Oct., 1962	+202 1 +115 8			n.a.		+19 4 +30 3
Rock Island-Moline		\$ 1,473	46 0 ^b			\$ 151 ^b	\$ 216
Percentage change from	Sept., 1963 Oct., 1962	+63 1 +22 5	-3 0 +13 9		n.a.	+9 4 +8 6	+8 0 +0 0
Rockford		\$ 2,322	64 6 ^c			\$ 236	\$ 309
Percentage change from	Sept., 1963 Oct., 1962	+54 9 +48 7	+0 5 +15 8		0 ^c -4 ^c	+3 5 +6 8	+18 8 +17 5
CENTRAL ILLINOIS							
Bloomington		\$ 335	14 1			\$ 113	\$ 179
Percentage change from	Sept., 1963 Oct., 1962	+10 6 -47 3	-3 4 +1 4		n.a.	+14 1 +18 9	+21 8 +27 9
Champaign-Urbana		\$ 731	21 2			\$ 137	\$ 170
Percentage change from	Sept., 1963 Oct., 1962	+23 3 +48 0	-4 9 +9 8		n.a.	+29 2 +18 1	+1 8 +11 1
Danville		\$ 178	20 3			\$ 68	\$ 86
Percentage change from	Sept., 1963 Oct., 1962	-34 3 -56 8	-3 8 +3 0		+2 -1	+21 4 +4 6	-6 5 +16 2
Decatur		\$ 767	44 4			\$ 196	\$ 177
Percentage change from	Sept., 1963 Oct., 1962	+57 8 +54 0	-4 7 +11 8		+6 +5	+36 1 +23 3	+22 9 +40 5
Galesburg		\$ 72	11 9			n.a.	\$ 54
Percentage change from	Sept., 1963 Oct., 1962	-48 6 -51 4	-8 5 +10 2		n.a.		+12 5 +8 0
Peoria		\$ 1,480	71 1 ^c			\$ 321	\$ 425
Percentage change from	Sept., 1963 Oct., 1962	+64 3 +156 5	-4 8 +8 7		+12 -6	+6 3 +9 6	+35 8 +2 7
Quincy		\$ 215	15 1			\$ 74	\$ 97
Percentage change from	Sept., 1963 Oct., 1962	-59 3 -79 6	-12 2 +4 9		n.a.	+21 3 +19 4	+12 8 +21 3
Springfield		\$ 1,348	48 6			\$ 182	\$ 408
Percentage change from	Sept., 1963 Oct., 1962	+184 4 +54 8	-4 7 +5 7		+5 ^c 0 ^c	+12 3 +9 0	+21 1 +22 2
SOUTHERN ILLINOIS							
East St. Louis		\$ 166	18 4			\$ 154	\$ 87
Percentage change from	Sept., 1963 Oct., 1962	-17 0 +33 9	-7 5 +5 1		n.a.	+13 2 +4 1	+1 2 +14 5
Alton		\$ 200	27 3			\$ 56	\$ 47
Percentage change from	Sept., 1963 Oct., 1962	-64 8 +35 1	-2 8 +2 2		n.a.	+9 8 +9 8	+9 3 +17 5
Belleville		\$ 620	14 9			n.a.	\$ 67
Percentage change from	Sept., 1963 Oct., 1962	+167 2 -55 1	-13 4 +9 6		n.a.		+1 5 +13 6

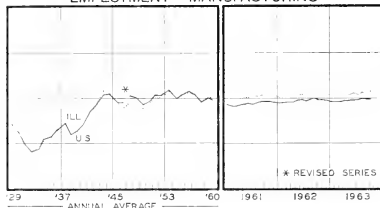
^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data for August, 1963, not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending October 11, 1963, and October 12, 1962.

INDEXES OF BUSINESS ACTIVITY

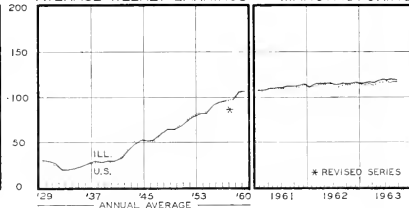
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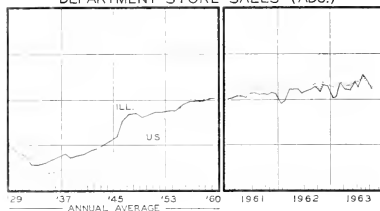
EMPLOYMENT - MANUFACTURING



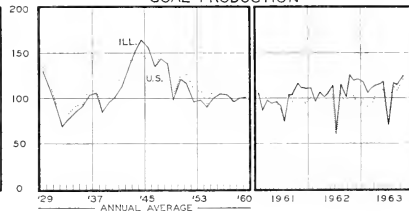
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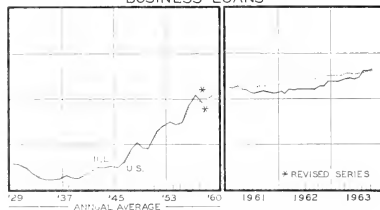
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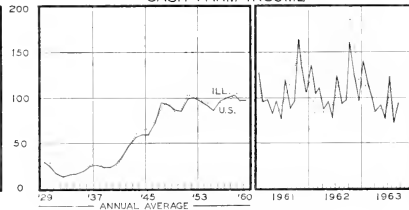
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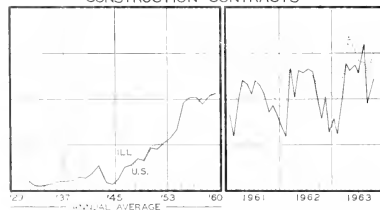
BUSINESS LOANS



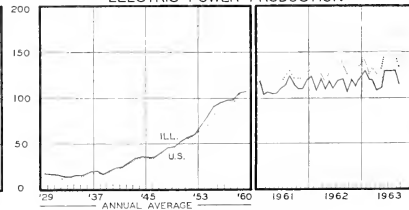
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

JANUARY, 1964

NUMBER 1

HIGHLIGHTS OF BUSINESS IN DECEMBER

December figures indicate that the economy ended 1963 on a strong note. The steel industry turned out more than 2 million tons of ingots in each full week of December, dropping to 1.8 million tons during the holiday week. The automobile manufacturers turned out 744,550 cars, a new December record. Electric power production reached peak levels. Output figures for coal, oil, and paper and paperboard were steady. The FRB index of industrial production stood at 127.2 (1957-59 = 100), a fraction above November and another new record.

Congressional Action

In the closing days of its first session, the 88th Congress finally acted on several bills. A three-year program to aid education will provide \$1.2 billion in grants and loans to public junior colleges and to public, private, and church-controlled colleges and universities. These funds will be used for construction of libraries and classrooms for instruction and research in mathematics, science, engineering, and modern foreign languages and for building and improving graduate schools and cooperative graduate centers.

Another bill appropriated \$2.1 billion for public works and \$2.3 billion for activities of the Atomic Energy Commission. After a great deal of acrimonious debate, Congress passed a foreign aid bill appropriating \$3 billion and giving the President authority to guarantee credit, through the Export-Import Bank, to traders selling wheat to the Soviet bloc. Lesser bills continued the manpower training program and the Peace Corps and provided further grants for vocational education.

Railroads Increase Car Buying

Last fall's shortage of freight cars, which was termed the worst in several years, has stimulated larger orders for new cars. The number of cars on order at the end of 1963 was above 30,000, the highest level in four years; and car builders expect the backlog to increase still further. Several other factors are cited to explain the improved outlook for car building: the railroads' continuing campaign to regain traffic lost to trucks and barges, improved railroad traffic and profit positions, higher per diem charges on cars belonging to some other line, and changes in depreciation and tax deduction rules.

The problem of car shortages has become serious enough to prompt the Interstate Commerce Commission

to launch a study of the over-all situation. It is pointed out that some lines are not building new cars and that more cars are being scrapped than are being built. There have also been reports of wrangling among the railroads regarding the return of empty cars to their owners.

1963 in Review

The past year was one of records or near-records in many areas of business activity and substantial improvements in others. Gross national product is estimated to have moved up close to the \$600 billion level in the final quarter and to have averaged about \$585 billion for the year. The gain over 1962's \$555 billion would thus be roughly 5 percent. Since prices averaged $1\frac{1}{2}$ percent higher, the gain in real output was about $3\frac{1}{2}$ percent.

Industrial production rose in the first half, steadied during the summer, and crept upward again late in the year to reach a record 124 (1957-59 = 100) for the year. It too showed an advance of about 5 percent. Steel production amounted to 109 million tons, more than 10 percent above the previous year; not since 1957 had the industry poured more than 100 million tons. The automotive industry assembled nearly 7.4 million cars, 10 percent above the 1962 figure but 304,000 short of the record. Electric power output increased 7 percent and exceeded 1 trillion kilowatt hours for the first time.

The value of new construction put in place in 1963 totaled a record \$62.8 billion, 6 percent above the previous high set the year before.

Personal income advanced in each month except February and was near \$475 billion in December. The average of \$463 billion was more than 4 percent above the 1962 level. Consumers were not reluctant to spend money either. Retail sales for the year totaled more than \$247 billion, a new record 5 percent above 1962 sales. Consumer short-term debt apparently increased about 10 percent during the year to \$70 billion.

Corporate after-tax profits for 1962, according to early estimates, totaled approximately \$26.5 billion, exceeding the previous high (1962) by nearly 8 percent.

Despite all these signs of prosperity, at least two major problems continue to nag the economy: unemployment in 1963 never fell below 5.5 percent of the labor force; and the balance of payments, though improving in the last half of the year, nonetheless wound up with a deficit of \$3 billion.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Technology Sets the Problems

Many of the world's critical economic problems are recalcitrant. The most advanced and the least developed countries alike face difficulties which persist or recur. Yet nothing seems to dispel the widely held opinion that there are "tried-and-true" policies or principles which afford ready-made solutions.

Clinging to traditional "solutions" could suffice as long as conditions remained unchanged. Unfortunately, this approach reflects an attitude of mind that is incapable of recognizing that the situation has changed, that we live in a different environment, which requires rethinking of old problems and application of new methods.

Looking back over the last two revolutionary centuries reveals that the important changes have been man-made. Our power to do things has expanded greatly. We have shrunk space and time, bringing all the world closer together. Some countries have made great progress in raising living standards. All this has been achieved through our own skills, through unremitting devotion to the advancement of science and technology. We glory in the prospect of pushing onward.

What, then, of those persisting problems? Our techniques have apparently not been adequate to eliminate all of them. As consumers we have reasonably succeeded in adapting our lives to the new powers and products that enable us to live comfortably and to move about and communicate quickly. But our institutions, our basic habits of thought, have not similarly been adapted to our collective powers or to the social conditions created by the new methods of operation being applied throughout the realm of economic affairs.

The Basis for Economic Development

The problems of the underdeveloped countries are largely tied up with their efforts to utilize advanced technology or with partial successes they have so far achieved. Gains are restricted because they lack the skills and the capital equipment required for efficiency.

Modern methods have been successfully applied on a partial basis only to defeat development goals. Advances in medical care and sanitation, for example, have often lowered the death rate sufficiently to accelerate population increases. Then, with population increasing faster than production, real income per capita actually declines; and if a specific group succeeds in obtaining an especially

large share of the increase, the mass of the people may be even more severely depressed.

Similarly, where they succeeded in expanding production of primary products, the results have again often been frustrating. For other countries also applied more efficient techniques, and the increase in total output resulted in world surpluses. Technology, increasing the yields per acre, has been a prime factor in building our own agricultural surpluses and in making Europe nearly self-sufficient in farm products. When output cannot be sold on world markets, foreign exchange cannot be readily obtained. Reducing prices may then afford no solution, because the importing countries commonly raise trade barriers to protect their own producers. But even if sales are possible at depressed prices, the loss of export earnings may leave foreign exchange insufficient to procure needed equipment.

Limited successes therefore offer no assurance of overall growth. The latter demands progress in accumulating the stocks of productive capital demanded by technological efficiency. But when consumption rises as fast as production, there is no increase in the savings available for investment; and when rising production for export brings no greater return, the ability to expand is again restricted. Foreign borrowing and aid programs may help, but they may also aggravate political difficulties by opening the door to charges that foreign exploitation is keeping progress excruciatingly slow.

Success Is Never Complete

For us, the problems arise out of institutional lags that surround our technical success and therefore take a quite different form. We can readily produce surpluses of almost anything but lack markets for all the goods we are capable of turning out. If there were some way of channeling all the potential earnings of our capacity production to potential buyers and investors, progress would be speeded, but our established ways of doing business and of allocating returns from production leave some resources to waste in idleness. The situation has not yet become critical but the trend suggests it is likely to get worse rather than better.

The interrelated problems of unemployment and racial strife must be attributed in large part to rising technical efficiency. In recent years, the loss of jobs through increases in productivity in all employment has been about 2 million per year. The increases in the labor force have averaged less than half as large. Employment has increased enough to absorb most of the additional workers, but not enough to reduce unemployment below the excessive rate of $5\frac{1}{2}$ percent. The prospect is that the rate of unemployment will stay just as high or even rise in 1964 despite the production increase that can be anticipated with the aid of the proposed tax cut. To employ any dissatisfied group of the unemployed therefore means taking jobs away from others, which no one can count a real gain. Some shuffling around takes place in retraining and related programs, but no real solution is possible by training workers for jobs that do not exist.

Furthermore, the slowdown which the tax cut is supposed to avert this year will recur after a limited period, probably sometime in 1965. Certainly, no other stimulus is now in sight. The consequence of such a slowdown will tend to be recession, with all the difficulty recession implies for foreign affairs as well as for our own economy. Much hopeful theorizing nowadays holds that recessions can be held to modest proportions into the indefinite

(Continued on page 8)

CONSERVATION IN ILLINOIS

A definition of the work of conservation is not quite so clear-cut as might be first thought. Essentially it involves preserving, guarding, and maintaining, but just what is to be conserved varies with time and circumstance. The whole process may perhaps be thought of as the establishment of some primary objectives and then continual but shifting action to retain the desired balance. To complicate matters, the conservationist has not only to contend with the changing behavior and works of man, but also with the more subtle and unpredictable behavior of nature.

The State of Illinois has undergone some remarkable changes in the last century-and-a-half. Prior to white settlement, and up to 1800, the State consisted of about 54 percent wild prairie, 39 percent forest, and 4 percent marshland. The Indian population was approximately 10,000. There were fabulous supplies of deer, elk, buffalo, goats, swan, geese, turkeys, and other wildlife. By 1900 the population had become almost 5 million. Cultivated or urbanized land took 84 percent of the area, forests 11 percent, and prairie and marshland less than 3 percent together. Subsequent changes in agricultural methods and products and urbanization further intensified land use and about doubled the population.

The Agencies of Conservation

As with many other government functions, the legislation and agencies required were developed gradually, to meet needs as they arose. As a consequence, administration still involves some overlapping and cooperative functions in addition to the individual responsibilities.

The participation of the state government in conservation and use of resources had an early start. The Canal Commission was formed in 1823, the Rivers and Lakes Commission came into being in 1911, and then in 1917 they both moved into the newly created Division of Waterways. In 1853 some legal restrictions were placed for the first time upon hunting. The State Natural History Survey was established in 1859 to study flora and fauna and still continues its work as a research arm of conservation. The Department of Registration and Education was formed in 1916, under which the Natural History Survey, the Geological Survey, the Water Survey, and the State Museum now operate.

The Department of Conservation was created in 1925 and is now the largest administrative body in the field, with an annual budget of over \$10 million. Its beginnings can be traced back to the State Fish Commission of 1879 and the Game Commission of 1903. It now has its own divisions of engineering, fisheries, game management, forestry, land reclamation, parks, law enforcement, and education.

In addition to the state agencies, the federal government makes important contributions. The United States Soil Conservation districts now include almost all agricultural land. The United States Forest Service carries out extensive work in the Shawnee National Forest in the southern tip of the State.

Conservation and Recreation

With such a range of conservation activity in the State, it is perhaps surprising to find one most important area with a significant deficiency. At the present time, Illinois has the lowest recreational park acreage per capita of any state in the Union, primarily because of a shortage of funds, although there is hope that a bond issue can be legalized to provide a source. With almost 11 million people visiting the state parks in 1962 and with numbers of campers increasing, there would seem to be justification for improvement.

The number of full-time fishermen on the Illinois and Mississippi rivers is now less than 200, but as part of the fish conservation program, over a million fish were stocked last year. Debated against this, however, must be the estimated 300,000 killed by pollution. The navigable waterways are also becoming increasingly popular for recreation, with approximately 750,000 people using 150,000 boats during the season; and public courses in boat safety are being offered. The improvement and development of these waterways continues.

Last year nearly 23,000 hunters turned out to kill 31,000 birds, and over 6,000 deer were killed. Closely connected with the maintenance of wildlife is the preparation of small pasture clearings and watering ponds, the planting of millions of tree seedlings, and the recording of the habits of wildlife in which school students and rural mail carriers have participated. The propagation services distributed 88,000 pheasant and 132,000 quail chicks.

Conservation of Resources

The work conducted by the agencies ranges from detailed scientific investigations to large projects. Into the former category falls, for example, the work of introducing new insects and fungi into the State to combat pests that have appeared over the years. A parasitic fly has, for example, been introduced by entomologists to reduce corn borers all over the State. Furthermore, it is found that some insects change their eating habits and have to be contended with as new dangers.

In the area of water resources, an analog computer is now being used to simulate groundwater conditions, detailed records are kept of rainfall and storms, and advice is given on reducing runoff erosion on agricultural land. Extensive hydrographic, topographic, and subsurface surveys in connection with water, flood, and erosion control are carried on throughout the State. As regards pollution, the State does have effective powers, and progress is certainly being made in encouraging cities to install sewage plants and industry to control its deposits.

The minerals in the State are, of course, vital resources, and conservation research is aimed at determining the amounts of these resources, obtaining the best in output and methods, and maximizing possible uses. Subjects for these activities are coal, oil and gas, industrial minerals such as pyrite and gypsum, fluorspar, zinc and lead, limestone, sandstone, and pottery clays.

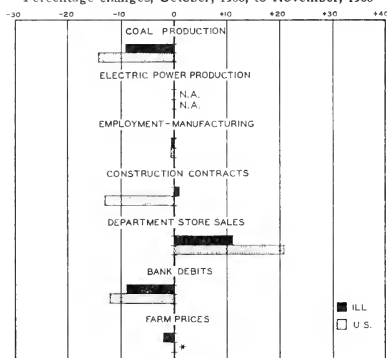
KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

UNITED STATES MONTHLY INDEXES

Percentage changes, October, 1963, to November, 1963



* Not seasonally adjusted. N.A. Not available. * No change.

ILLINOIS BUSINESS INDEXES

Item	Nov. 1963 (1957-59 = 100)	Percentage change from	
		Oct. 1963	Nov. 1962
Employment—manufacturing ¹	99.2	- 0.4	+ 0.5
Weekly earnings—manufacturing ¹	119.5 ^a	+ 0.2	+ 3.2
Consumer prices in Chicago ²	105.5	- 0.2	+ 0.5
Life insurance sales (ordinary) ³	134.9	- 8.0	+ 5.0
Dept. store sales in Chicago ⁴	117.0 ^b	+ 4.5	+ 0.9
Farm prices ⁵	94.0	- 2.1	- 5.1
Bank debits ⁶	148.9	8.9	+ 7.4
Construction contracts ⁷	123.4	+ 1.0	+ 21.2
Electric power ⁸	123.1	+ 1.2	+ 9.1
Coal production ⁹	113.1	- 9.1	- 4.8
Petroleum production ¹⁰	95.4	3.6	- 4.1

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Agency, Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.
* Preliminary. * Seasonally adjusted.

Item	Nov. 1963	Percentage change from	
		Oct. 1963	Nov. 1962
	Annual rate in billion \$		
Personal income ¹	472.8 ^a	+ 0.3	+ 5.1
Manufacturing ¹			
Sales.....	422.4 ^a	- 0.0	+ 3.5
Inventories.....	59.7 ^{a, b}	+ 0.7	+ 4.6
New construction activity ¹			
Private residential.....	28.6	- 0.7	+ 13.5
Private nonresidential.....	20.3	- 0.4	+ 7.1
Total public.....	19.6	- 17.8	+ 6.2
Foreign trade ¹			
Merchandise exports.....	25.0 ^c	+ 14.1	+ 28.9
Merchandise imports.....	19.2 ^c	+ 14.3	+ 11.1
Excess of exports.....	5.8 ^c	+ 13.3	+ 176.4
Consumer credit outstanding ²			
Total credit.....	67.7 ^b	+ 1.0	+ 10.7
Instalment credit.....	52.7 ^b	+ 0.8	+ 12.0
Business loans ³	42.5 ^b	+ 2.2	+ 7.5
Cash farm income ⁴	58.9 ^c	+ 34.9	- 1.8
	Indexes (1957-59 = 100)		
Industrial production ²			
Combined index.....	127 ^a	+ 0.2	+ 6.2
Durable manufactures.....	127 ^a	+ 0.5	+ 6.5
Nondurable manufactures.....	128 ^a	0.0	+ 6.0
Minerals.....	109 ^a	- 1.4	+ 2.6
Manufacturing employment ¹			
Production workers.....	100 ^a	- 0.4	+ 1.2
Factory worker earnings ⁴			
Average hours worked.....	102	- 0.2	+ 0.5
Average hourly earnings.....	116	+ 0.8	+ 3.3
Average weekly earnings.....	119	+ 0.6	+ 3.8
Construction contracts ⁵	130	- 13.1	+ 17.6
Department store sales ⁶	117 ^a	+ 3.5	- 0.8
Consumer price index ⁴	107	+ 0.2	+ 1.3
Wholesale prices ⁴			
All commodities.....	101	+ 0.2	0.0
Farm products.....	96	+ 1.2	- 3.1
Foods.....	103	+ 0.3	+ 1.2
Other.....	101	0.0	+ 0.2
Farm prices ³			
Received by farmers.....	100	0.0	- 1.0
Paid by farmers.....	106	0.0	+ 1.0
Parity ratio.....	77 ^d	0.0	- 2.5

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
* Seasonally adjusted. * End of month. * Data for October, 1963, compared with September, 1963, and October, 1962. * Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1963					1962
	Dec. 28	Dec. 21	Dec. 14	Dec. 7	Nov. 30	Dec. 29
Production:						
Bituminous coal (daily avg.).....	1,196	1,499	1,583	1,583	1,385	1,263
Electric power by utilities.....	17,932	19,814	18,993	18,427	16,976	16,435
Motor vehicles (Wards).....	154	216	218	218	175	130
Petroleum (daily avg.).....	7,603	7,597	7,619	7,597	7,558	7,362
Steel.....	96.8	107.5	109.3	109.6	107.4	92.1
Freight loadings.....	376	498	540	558	467	357
Department store sales.....	162	287	265	232	127	121
Commodity prices, wholesale:						
All commodities.....	100.5	100.2	100.2	100.1	100.2	100.4 ^a
Other than farm products and foods.....	101.1	101.1	101.0	100.9	100.8	100.7 ^a
22 commodities.....	95.5	94.6	94.5	95.1	94.8	92.7 ^a
Finance:						
Business loans.....	37,851	37,999	37,476	37,326	37,254	35,166
Failures, industrial and commercial.....	158	232	257	265	190	143

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for December, 1962.

RECENT ECONOMIC CHANGES

Inventory and Sales Expectations

Manufacturers expect a continued rise in both sales and inventory accumulation through the first quarter of this year, according to the Department of Commerce. An over-all sales increase of 1.5 percent is projected. If this expectation is realized, sales will reach a new high of \$106.7 billion in the first quarter, on a seasonally adjusted basis. Durable goods producers look for an advance of about 2 percent and nondurable goods manufacturers for an advance of 1 percent above the third quarter of 1963 during this six-month period.

Manufacturers anticipate that their inventory book values will rise \$600 million in the fourth quarter of 1963 and an additional \$400 million in the first quarter of 1964. This would bring book values to \$60.1 billion, seasonally adjusted, at the end of March. Durable goods producers will account for three-fifths of the projected rise in total factory stocks, about the same as in other recent quarters.

Price of Silver Rises

As a result of a continuing gap between world output and consumption, the price of silver has reached its highest level in 43 years and is now slightly above \$1.2929 per fine ounce, the monetary value of silver. At the \$1.2929 price, the three-quarters of an ounce of silver contained in a standard dollar coin has a market value of one dollar; if the price moves higher, the metal content of the coin—disregarding costs of melting—would be worth more than its value as money. Subsidiary coins, such as half dollars, quarters, and dimes, would not be worth their silver content unless the price of the metal rose above \$1.3824.

During 1963 Congress passed the first silver legislation since 1946. In it they authorized the sale of the silver stored in Treasury vaults to the public in bar form at the statutory monetary value. The price of silver in

the New York market, as indicated in the chart, increased from \$0.9162 an ounce in November, 1961 (when the Treasury suspended sales owing to a fear of exhausting its free or nonmonetized stocks), to \$1.0453 in January, 1962, where the price held firm for about six months and then began to rise till it reached the current level. Thus in approximately two years, and at a time when other metals have increased only moderately in value, the price of silver has risen 41 percent.

Last year's legislation, which went into effect in June, eliminated those provisions that required the Treasury to purchase silver at \$0.905 an ounce and to hold that silver in its monetary reserves. However, the Treasury remains obligated to redeem in bullion or coin any silver certificates presented for redemption and it may no longer dispose of any silver to the public at a price lower than the monetary value but may dispose of it when the market price rises above \$1.2929. Thus the United States Treasury, through redemption of silver certificates, becomes a residual supplier for demand in excess of commercial offerings; and since exports from the United States are free, the \$1.2929 price, adjusted to cover freight and insurance costs, extends to world markets.

Consumer Buying

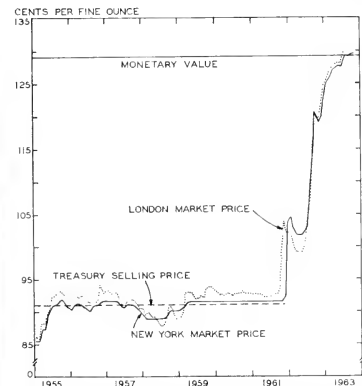
Consumer spending rose to a seasonally adjusted annual rate of \$374.9 billion in the third quarter of last year, a \$4.5 billion increase over the previous quarter and a \$17.8 billion increase above the third quarter of 1962. Purchasing by consumers has closely paralleled the record flow of income during the past year, so that the ratio of expenditures to disposable income has remained at about 93 percent.

The demand for goods in the postwar period, though increasing, has failed to match the growth of demand for services. The share of the dollar spent for services, which had climbed steadily until it was nearly 43 cents in 1961, had fallen to 41.5 cents by the end of the third quarter of last year. The share of nondurable goods, which has shown an almost constant decline throughout the post-World War II period, reached a historical low of 45 cents. The durable goods share of the consumer's dollar in the third quarter of 1963 was equal to that of 1962, although fractionally below the earlier quarters of the year.

Unemployment

The number of unemployed in the United States was 3.8 million, or 5.5 percent of the civilian labor force in December, 1963. During the recession of 1960-61 the rate of unemployment reached 7 percent, remained at that level during the early months of recovery, fell to about 6 percent by the end of 1961 and subsequently to 5.5 percent in March, 1962, and since has remained between 5.5 and 6 percent. From the recession low of 1961 to the end of 1963, almost 3.6 million workers were added to the payrolls of American industry, roughly three times the number who lost jobs during the decline. During the current recovery, employment in nonfarm industries leveled off in mid-1963. By the end of 1963, job gains in the service industries and state and local governments had added about a million persons to the payrolls since the recession low; but with industry adopting more labor-saving techniques, manufacturing employment failed to rise significantly above the previous peak.

TREASURY AND OPEN MARKET SILVER PRICES



Source: First National City Bank of New York, *Monthly Economic Letter*, December, 1963, p. 138.

MALAYSIA: PURPOSES AND PROSPECTS

RICHARD BUTWELL, Associate Professor of Political Science

Malaysia was formed on September 15, 1963, by enlargement of the politically quiescent and economically prosperous state of Malaya to embrace Singapore and the northern Borneo territories of Sarawak and Sabah (formerly British North Borneo). (See chart.) The British-protected sultanate of Brunei balked at the last moment at federation with the other four territories, but its ultimate accession is considered likely. The new federation, a country of 130,000 square miles and close to 10 million inhabitants formed of ex-British colonial territories, was initially regarded as likely to add a strong stabilizing influence in the region south of China and east of India.

Malaya had already formed the embryonic common market known as the Association of Southeast Asia (ASA) with Thailand and the Philippines in 1961. The latter two countries are members of the eight-nation Southeast Asia Treaty Organization (SEATO), along with the United States. Thus, the new nation, joined with Thailand and the Philippines, would form an anti-Communist area along the northern frontier of the archipelagic state of Indonesia, separating that increasingly aggressive and leftist-leaning republic from Communist-threatened continental Southeast Asia.

The birth of Malaysia served initially, however, to disturb the already troubled political waters of Southeast Asia, provoking new expressions of Indonesian belligerence. Indonesia termed the new state a manifestation of "neo-colonialism" and pledged a policy of "confrontation," which has expressed itself to date mainly in the form of border raids into the northern Borneo territories of Malaysia from Kalimantan (the southern two-thirds of the island of Borneo belonging to Indonesia).

It also alienated the Philippines from its ASA partner, the former Malaya, because the Philippines claimed Sabah, the easternmost state in the new federation and had sought settlement of its claim before Malaysia was formed. This claim, aside from its actual merits, makes little political sense, disturbing as it does the developing pattern of region-wide cooperation among the anti-Communist nations (a long-time goal of Philippine governments). The United States endorsed the establishment of Malaysia; Britain, Australia, and Japan all back the new country, as does India.

Threat of a Communist Singapore

A primary proclaimed reason for Malaysia's formation was the threat of a Communist takeover in the British Crown Colony of Singapore at the tip of the Malay Peninsula in the economic heart of Southeast Asia. This island of 225 square miles was being isolated politically and was adrift in a sea of mounting economic nationalism, which challenged its traditional status as a regional entrepôt. The ruling People's Action Party government, which was leftist but not extremist, had a majority of only 27 in the 51-member Singapore Legislative Assembly in mid-1961. And new elections were scheduled to be held by 1964, when independence might also be granted the colony by Britain. If Singapore gained its freedom and pro-Communist elements gained control by ballot of

the strategic, largely Chinese-populated island, Malaya would find itself separated by only a short causeway from a "Southeast Asian Cuba," as Malayan officials put it.

Other officially offered reasons for Malaysia's establishment included the expectation that the northern Borneo lands would become increasingly restive in an era of general emancipation from colonial rule, requiring some alteration in their status. Merger with Malaya and Singapore seemed to offer a solution promising both political stability and economic progress. In addition, Britain, contented with its post-colonial ties with Malaya, hoped that the merger would permit the kind of relationship with northern Borneo that it already enjoyed with Malaya.

Finally, Indonesia had at last wrested control of West Irian (Western New Guinea) from the Netherlands, and it was feared by Malaysians and Britons alike that the Sukarno government would subsequently seek absorption of northern Borneo—which would be the easier if these comparatively smaller territories gained independence individually and remained separate.

Singapore had for several years pursued the goal of merger with Malaya for economic reasons. But the Malay leadership turned a deaf ear, realizing that absorption of Singapore's 1.1 million Chinese would disturb the delicate balance among its main races—Malay, Chinese, and Indian. The Malays (including recent ethnically related migrants from Indonesia) accounted for 50 percent of Malaya's total population of more than 7 million. The Chinese made up 37 percent, and the Indians 11 percent. Merger with Singapore alone would have given the economically more advanced and aggressive Chinese a small numerical predominance which would have resulted (in Malay eyes) in political domination as well. Formation of a five-territory union, on the other hand, would bring in another 1.2 million of population and result in only a slight increase in the Chinese percentage of the total population.

MALAYSIA AND THE SURROUNDING AREA



Malayan Expansion Necessary

There were other reasons for launching Malaysia that have not been widely discussed either officially or otherwise. One of these was Malaya's precarious economic dependence on the export of two commodities, rubber and tin, of which it is the world's chief producer. These two products accounted for more than 80 percent of export earnings, 45 percent of total government revenues, and a quarter of the Malayan gross national product. The fall of rubber prices to a nine-year low in September, 1963, occasioned a major scare in Malaya, reflecting as it did increasing competition from synthetics. As for tin, Malaya's deposits are clearly in process of depletion. In addition, the United States policy of disposing of surplus from its government stockpile of the metal has had a restrictive influence on the international price.

Malayan economic development, among the most spectacular in Asia, is highly dependent on export earnings. The Five-Year Plan issued in 1961 was based on the assumption that rubber, then selling at 35 cents a pound, would drop to about 27 cents in the subsequent half-decade — but the price of rubber has already declined to 25 cents a pound. The average Malayan's annual income of nearly \$300 a year is second only to Japan in Asia, and reduction could bring serious political consequences.

Politicians and administrators concerned with economic development have long urged some type of merger with nearby British territories as a means of broadening their country's economic base. Both Sarawak and Sabah have substantial timber resources, while Singapore is a major center of manufacturing facilities in the region and has a population possessing modern technical and managerial skills. Brunei would bring to the union one of the most profitable petroleum deposits in Southeast Asia. Bauxite, coal, copra, tobacco, pepper, hemp, rice, and fish are among the other products of the northern Borneo territories.

Fear of Communism not only to the south in Singapore and Indonesia but also to the north in continental Southeast Asia was another factor underlying the formation of Malaysia. A high Ministry of External Affairs official, anticipating further encroachment, told me in 1962, "We hope that our friends the Thai and the Vietnamese will be able to hold the line, but, if they cannot, we ourselves will be on the front line. We must be as strong as possible in such an eventuality. Malaysia will give us new strength through union."

The Identity Crisis

An important psychic influence behind the idea of Malaysia — never mentioned openly in Malaya — was the latter country's unique variant of the "identity crisis" so prevalent in the "new states" of Asia and Africa. Leaders and followers alike in such countries have suffered from varying degrees of immobilization deriving in large measure from the twin factors of lack of perception of their roles in the new era and lack of confidence in their abilities effectively to discharge their various responsibilities. The establishment of an independent Malayan national government in 1957 preceded the formation of a Malayan nation in which persons thought of themselves as Malaysians rather than as Malays, Chinese, and Indians living in a place called Malaya.

Since 1961, Premier Tengku Abdul Rahman has been skillfully using Malaysia as a device to help his "countrymen" discover their identities in the challenging task of developing the riches of northern Borneo in a new

partnership which will try the resources of the old Malaya and leave little time for reflection along communal lines. This at least is the Tengku's hope.

Finally, a factor of world-wide expression has already revealed itself in Southeast Asia in the form of SEATO and ASA and in Western Europe in the European Economic Community and other pan-European institutions. It is the growing realization of the inadequacy of existing national institutions to cope with some contemporary problems. Malaya as previously constituted not only lacked a broad enough economic base for continued survival, let alone prosperity, but also did not possess the capability effectively to defend itself against external attack. Malayan realization of the inadequacies of the conventional limited nation-state was very real, if rarely publicly articulated.

Once the decision to launch Malaysia was made, it was imperative that the would-be partners move as quickly as possible toward union. Tengku Abdul Rahman's proposal to establish Malaysia in May, 1961, came as a surprise to virtually all concerned, including pleased Singapore Prime Minister Lee Kuan Yew, a long-time advocate of a Malayan-Singapore merger. In contrast, it greatly displeased Indonesian President Sukarno, who sees his own nation (fifth most populous in the world) as natural leader of the region. Speed was necessary to establish Malaysia before the opposition could adequately organize itself — meaning both Sukarno's Indonesia and pro-Communist elements in Singapore. It was also necessary to move quickly before nationalism developed in the Borneo territories and demanded independence rather than merger with Malaya and Singapore.

Importance of Malaysia

The importance of Malaysia is severalfold. The new state is a strongly anti-Communist country born into a world of many Marxist-inclined new nations. Malaya's solid economic and political accomplishments since independence in 1957 suggest that the enlarged polity will be successful. Together with Thailand and the Philippines, Malaysia, as Malaya's successor in ASA, can be considered part of a *de facto* regional economic counterpart to SEATO, the American-led Southeast Asian security alliance.

Secondly, Malaysia is probably the most important regional counter to Indonesian imperialism, which is evident in absorption of West Irian but even more apparent in recent moves designed to take over control of northern Borneo. There are at least three reasons why Malaysia has become a major obstacle to new "adventurism" on the part of President Sukarno: first, by its very being (incorporating as it does two of the three northern Borneo territories and surrounding the third, Brunei); second, by its possible future participation in a confederal "Greater Malaysia" as proposed by Philippine President Diosdado Macapagal; and third, by partnership in anticipated future institutionalized diplomatic consultations with both the Philippines and Indonesia in the new regional grouping known as "Maphilindo."

Malaysia, in addition, can also be regarded as part of a general process of coalescence in the region which first expressed itself in the formation of SEATO in 1954 and subsequently produced the economically oriented ASA in 1961 and the consultative Maphilindo pact in 1963.

Finally, and perhaps most importantly, Malaysia, like Malaya before it, provides a model for other developing nations of successful political management of diverse ethnic and economic interests, including those of its large

Chinese minority (which has counterparts throughout racially mixed Southeast Asia).

An event of such importance as Malaysia's establishment could not help but provoke opposition. Both the Chinese and the Soviets, particularly the former, have been scathing in their denunciations, calling the new state a means for the retention of British colonial interests in Southeast Asia. Indonesia has also proclaimed its strong opposition to Malaysia, although there were brief periods in the spring and summer of 1963 when it appeared as if President Sukarno might reluctantly reconcile himself to the new state (as at the July 31-August 5 conference of the Heads of State of Indonesia, the Philippines, and Malaya in Manila when Maphilindo was formed). Given Indonesia's strong anti-colonial bias, its posture is hardly surprising. Lack of Western support for its claim to West Irian contrasted sorely in Indonesian eyes with prompt Western endorsement of Malaysia.

The Future of Malaysia

The future of Malaysia faces many uncertainties. It remains to be seen whether Malaya can in fact be expanded to absorb the other territories without overburdening its political mechanisms for conflict resolution in view of the even more diversified racial groupings of the new state. Malays comprise only 17.3 percent of the population of Sarawak and an even smaller 5.5 percent in Sabah. Three-quarters of Sabah's population is neither Malay nor Chinese and the same is true of half the population of Sarawak. Malay, which was supposed to become the only official language of Malaya in 1967, is not spoken by most of the inhabitants of Singapore, Sarawak, Sabah, or Brunei; and Islam (the state religion of Malaya) is nowhere else in the federation the predominant faith.

There is also some doubt that its economic resources for development purposes will prove adequate. Despite acquisition of Sarawak's and Sabah's timber and expected access to Brunei's oil, Malaysia will still need to diversify its economy to lessen its dependence on flexible international demand and prices for what is still a comparatively limited range of exports.

Incapable at this stage of defending itself against external attack or even of putting down without outside help the kind of rebellion faced by Malaya between 1948 and 1960, Malaysia is by no means assured of tranquil times in the years ahead. Cooperation with SEATO (of which Malaysia is not a member) as well as with ASA partners Thailand and the Philippines, if the dispute with the latter country can somehow be ended, appears likely. Indeed, this seems to be necessary, since the threat of war with Indonesia remains an especially ominous possibility in view of the size, equipment, and facilities of the Soviet-aided Indonesian fighting forces. Border incidents with Indonesian Borneo, at the very least, are likely to continue for some time. Finally, it should be noted that the threat posed by Singapore's pro-Communist elements has not been ended—only changed in form. The Communists have been “allowed into the front parlor,” as one Malayan politician has put it, “where they can be contained and controlled.” But it remains to be seen whether they can be “contained and controlled.”

Malaysia is clearly a bold and imaginative effort to strike first in the struggle for survival and the free life in Southeast Asia. The Malaysian leadership today has the initiative in the battle with its opponents—something that cannot be said for only too many of the United States' friends in Southeast Asia. Malaysia's chances of survival and success are good but not certain.

Technology Sets the Problems

(Continued from page 2)

future, because stabilizers have been built into our economic system, but basic business practices and the structure of investment relationships have not changed enough to make these assertions convincing. Instability is built into the responses of a capital-using economy and remains the concomitant of high prosperity.

Even if nothing goes wrong inside the economy, shocks from without cannot always be avoided. Our persistent balance-of-payments deficits, though temporarily reduced by the threat to tax purchases of foreign securities, are essentially based on a loss of competitive advantage in export markets. The reversal from the early postwar years has not occurred by reason of any deficiency on our part but has derived from the progress of our industrial competitors. They have rebuilt their industry in accordance with modern standards and, with workers employed in new, efficient facilities, their advantages in wage costs make an important difference. In other words, the technical improvements effected in other industrial countries work against us as they do against the developing nations; and the possibility of restrictionism is evident in the chicken war and the other tariff maneuvers of the last two years.

No Line of Retreat

Once an economy has embarked on the course of growth supported by technological advance, there can be no backtracking. Any letdown tends to set in motion cumulative forces of deflation that tend to damage others as well as ourselves. If we cut off aid and trade, we cut off the basis for expansion of the export industries and thus set ourselves on a course of self-destruction. It is ridiculous to argue that someone else will be damaged more. By reason of the greater heights from which we may fall, our losses are pretty sure to be the largest.

Nevertheless, in the arrogance of our success, we show the least concern about dealing with the problems that may arise. Other countries more clearly realize that new methods must be developed to deal with emerging problems, and they have been setting up planning mechanisms to prepare the measures that will be needed. Most of this planning is fairly short-term in character, running generally to a year or several years ahead, but it is a start in facing the future.

Ultimately, the trends in technological advance seem likely to require a more basic rethinking of our position. They will call in question practices buried deep in our present institutions. We may be forced to adjust not only our ways of living—as we already have to the automobile, the household gadgets, and the other facilities now available for our use—but our ways of thinking about life, work, thrift, and progress. For the changes we face are not ephemeral. They are aspects of irreversible technical and social currents.

With so many of the world's problems imbedded in the newness of an environment that can never be put back the way it was before, the genie of technological advance may well say, “I am not the slave. I am the Master!” In a sense we have conceded the point. We have chosen his way as our goal. We cannot succeed by violating his dictates but must ever adapt ourselves to the conditions his work imposes. Some of our cherished institutions may have to go. So, assuming we may have some freedom of choice, it will be wise to consider which we really want to retain.

VLR

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Life Insurance Premiums Fall

The average premium payment per \$1,000 of life insurance in force with United States companies decreased from \$30.20 in 1940 to \$27.00 in 1950 and to \$19.10 in 1962, a reduction of 37 percent in 22 years. A number of factors have contributed to this trend.

The decline in the average premium is partly a reflection of the expansion of group life insurance. Since group insurance is chiefly term insurance, the premiums are considerably lower than those for other types of policies. Of total life insurance in force with United States companies at the end of 1962, nearly 37 percent was group insurance (including group credit) as compared with 13 percent in 1940.

For ordinary insurance, the premium per \$1,000 of insurance in force declined from \$31.70 in 1940 to \$24.00 in 1962. Reductions were made possible through lower death rates and higher earning rates. The death rate for ordinary life policy-holders dropped from 7.4 per 1,000 in 1940 to 6.2 in 1962. In addition, the earning rate on companies' invested funds rose from 2.96 percent in 1948 to 4.34 percent in 1962. Additional reductions were effected as a result of the changing distribution of life insurance ownership by type of insurance, with the more expensive types of protection giving way to lower-premium policies and a marked increase in recent years in the size of ordinary policies purchased, since many companies allow premium discounts on policies of larger amounts.

Agriculture in 1962

On January 1, 1963, for the ninth year in a row, farm assets and debts were larger than they were a year earlier. Assets were valued at \$216.5 billion, up \$8.5

billion from the previous year. Farm debt rose from \$27.4 billion to \$30.2 billion, but equities in farm assets rose from \$180.6 billion to \$186.3 billion during the year. Higher prices for assets and savings from income both contributed to the advance in net worth.

As in the past, rising real estate values were the primary cause for the increase in assets but other assets were also up. Larger numbers of cattle and hogs and a higher price per head for cattle boosted the value of livestock. Realized net farm income in 1962 totaled \$12.6 billion, \$100 million more than in 1961. Gross farm income increased \$1.6 billion but the advance was largely offset by higher production costs and larger inventories. A slight gain in the income of farm families from off-farm sources occurred. These sources now account for about one-third of the personal income of the farm population.

On the debt side of the ledger, the growth in 1962 was the largest recorded in some time. Underlying the increases in both farm mortgage and non-real-estate debt was the continued trend of farm consolidation as well as the greater need for capital by farmers to purchase new equipment, and a rise in farm real estate values.

Appliance Price Trends

The continuing weakness in prices of household appliances since the early 1950's, particularly at the retail level, runs counter to the generally rising trend of prices, as indicated in the accompanying chart. From December, 1951, when the consumer price index for appliances reached a postwar peak of 125.6 (1957-59 = 100) to December, 1962, retail appliance prices declined 26.7 percent. In contrast, the CPI itself rose 14.8 percent, the index of prices for services advanced 34.3 percent, and all other retail commodity prices rose 6.5 percent. As measured by the wholesale price index, appliance prices in June, 1963, were 10.9 percent below the December, 1951, level, whereas the all-commodities index increased 5.0 percent during the same period and prices of industrial commodities rose 11.3 percent.

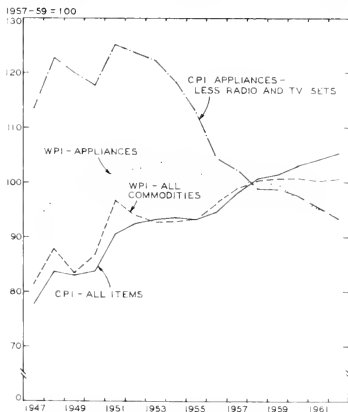
This price trend, even with simultaneous product improvements, has been caused by extremely competitive retail markets combined with some overproduction.

Statistics of Income Tape Library

The Internal Revenue Service has recently announced that it now has available a library of computer tapes containing data from tax returns used in producing the various *Statistics of Income* services. The purpose of the library is to provide a source of historical data for legislators, government officials, and business analysts. In addition, since it includes data on an individual record basis, it is possible to use the information or retrieve it in forms not produced in the published reports.

This *Statistics of Income* tape library consists of two related parts, a three-year library and a model library. The library may be used on an actual-cost basis with users having the option of paying to have their projects run on Internal Revenue equipment, or, within certain limitations, of purchasing tapes from the IRS. Requests to purchase tapes or tabulations should be addressed to the Assistant Commissioner (Planning and Research), Internal Revenue Service, Washington 25, D.C.

PRICES OF APPLIANCES AND ALL ITEMS



Source: U.S. Bureau of Labor Statistics.

LOCAL ILLINOIS DEVELOPMENTS

Postal Receipts Increase

Total postal receipts for 18 major trading centers in Illinois amounted to \$21,084 million, an increase of 7.5 percent over the previous year (see chart). A new postal rate schedule effective January 7, 1963, provided significant increases for all classes of mailing rates, and particularly for third-class bulk items.

Gains were registered for all of the cities shown. Elgin had an exceptionally high increase of 51 percent owing to a large volume of bulk mail sent from a new retail merchandising firm. A number of other cities showed sizable increases also—Champaign-Urbana, 23 percent; Quincy, 22 percent; Danville, 20 percent; Aurora, 19 percent; Galesburg, 17 percent; and Rockford, 15 percent. The smallest gains were for Alton (4 percent) and Peoria (2 percent).

Decline in Apprenticeships

According to the Illinois Department of Labor, 9,300 apprentices from the State were registered with the United States Bureau of Apprenticeship as of July 1, 1963. This number represents a drop of 2,500 persons or 20 percent since June, 1959.

Firms employ and train apprentices in order to meet expected demands for the services of highly trained craftsmen. Therefore, differing proportional changes between industrial groups are likely to reflect changes in the employment of skilled workers in the labor force. Over the stated four-year period, the largest change in apprenticeships was in the construction industry, which showed a 30 percent decline. Gains of 7 and 6 percent respectively have taken place in the metalworking and printing industries. In the category of "other selected

trades," including butchers and meat-cutters, linemen, electrical workers, and pipefitters, apprenticeships declined by 5 percent. Despite the net decline of 22 percent that has been shown, however, prospects for apprenticeship opportunities are favorable inasmuch as the demand for craftsmen is expected to increase at least until 1970 in response to advanced technology and automation.

New Generating Plant

The Commonwealth Edison Company has announced construction plans for a new power plant in the central Illinois coal district. The project is to cost over \$100 million and the minimum power capacity of 1,120,000 kilowatts is to be supplied by two generating units.

The plant is to be located near Kincaid (in Christian County) and near a large underground coal mine owned by the Peabody Coal Company. A conveyor belt system is to carry coal from the mine to the station. Two 345,000-volt transmission lines are to extend 175 miles from the station to the Chicago load center, with neighboring utilities connected to the plant through a third high-voltage line. The new project is to raise the net generating capacity of Commonwealth Edison to 8.7 million kilowatts.

Chicago Area Construction Employment

The Illinois State Employment Service states that technological advances constitute a major problem for construction employment. Building activity in general now requires fewer men and less time than formerly. Operational efficiency and cost controls have been improved through the use of computer techniques in work scheduling, better tools and equipment, and much better quality materials.

Both workers and craftsmen are affected by a serious unemployment problem. As of October, 1963, construction employment, at roughly 116,000 workers, showed declines of approximately 4 and 11 percent since October, 1960, and October, 1958, respectively. The unemployment rate averaged 5 percent during peak seasons of the late 1950's; currently, the rate averages 20 percent. A seasonal decline of 25,000 to 30,000 in the number of workers takes place between October and February.

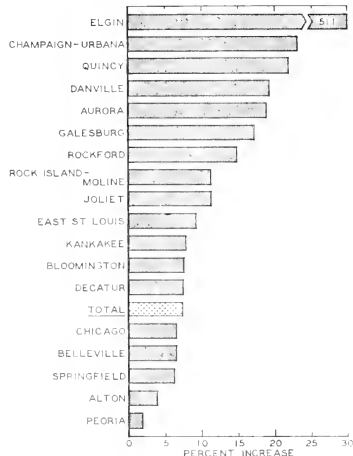
Illinois Crop Production

According to the United States Department of Agriculture, the Illinois all-crop production index for 1963 stood at 124 (1957-59 = 100), 10 percent above the high level set for 1962. Large gains were realized despite serious drought conditions; the value of crop output advanced by nearly 14 percent to \$2 billion. Illinois was second only to California in national crop output.

Corn production, at 752 million bushels, was 10 percent above the previous record set in 1962. Yields per acre, averaging 85 bushels, exceeded the previous year's high by 4 percent. The soybean crop of 164 million bushels exceeded the 1962 high by 4 percent. The 1963 yield of 29.5 bushels per acre exceeded the record yield set in 1962 by one bushel.

The oat crop totaled 81 million bushels, 1 percent over the previous year. Winter wheat production, at 71.4 million bushels, was 39 percent above the 1962 level and set a new record. The hay crop, at 4.2 million tons, was 4 percent below the 1962 crop.

CHANGES IN POSTAL RECEIPTS, 1962 TO 1963



Sources: Local post office reports.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1963

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000,000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
Percentage change from	(Oct., 1963, Nov., 1962)	\$24,782 ¹ -60 2 -4 0	1,442 4 ¹ +0 5 +5 8		+11 +1	\$24,762 ¹ -8 9 +7 4	\$21,084 ¹ -0 4 +7 5
NORTHERN ILLINOIS							
Chicago							
Percentage change from	(Oct., 1963, Nov., 1962)	\$14,439 -69 9 -15 5	1,020 3 +0 3 +4 9		+11 +1	\$22,999 -8 8 +7 8	\$18,004 -1 6 +6 6
Aurora							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 583 -64 4 -17 7	n.a.		n.a.	\$ 99 -3 9 +8 8	\$ 200 -7 8 +19 0
Elgin							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 415 -46 0 +174 8	n.a.		n.a.	\$ 59 -4 8 +3 5	\$ 263 +27 1 +51 1
Joliet							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 646 -30 2 -15 0	n.a.		+17 +2	\$ 102 -7 3 +0 0	\$ 158 +16 2 +11 3
Kankakee							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 289 -66 4 +9 1	n.a.		n.a.	n.a.	\$ 81 +3 8 +8 0
Rock Island-Moline							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 968 -34 3 -20 1	53 5 ^b +16 3 +29 2		n.a.	\$ 153 ^b +1 3 +7 7	\$ 236 +21 6 +11 3
Rockford							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 1,316 -43 3 +27 1	63 9 ^c -1 4 +4 8		+16 ^c -1 ^c	\$ 236 +0 0 +8 8	\$ 336 +12 4 +15 1
CENTRAL ILLINOIS							
Bloomington							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 398 +18 8 -23 8	13 3 -5 7 -5 7		n.a.	\$ 96 -15 0 -5 0	\$ 140 +18 1 +7 7
Champaign-Urbana							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 632 -13 5 +36 2	21 2 +0 0 +11 0		n.a.	\$ 111 -19 0 +7 8	\$ 175 -7 9 +23 2
Danville							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 438 +146 1 +120 1	21 7 +6 9 +6 4		+12 -4	\$ 59 -13 2 -3 3	\$ 104 +16 9 +19 5
Decatur							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 500 -34 8 +100 8	45 0 +1 4 +11 9		+8 ^c +6 ^c	\$ 146 -25 5 -3 9	\$ 155 -0 6 +7 6
Galesburg							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 87 +20 8 -63 6	12 0 +0 8 +9 1		n.a.	n.a.	\$ 61 +13 0 +17 3
Peoria							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 1,137 -23 2 +35 7	70 7 ^c -0 6 +8 3		+6 0	\$ 303 -5 6 +8 6	\$ 420 +5 3 +1 9
Quincy							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 693 +222 3 +696 6	15 3 +1 3 +2 7		n.a.	\$ 62 -16 2 -1 6	\$ 111 +27 6 +22 6
Springfield							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 1,776 +31 8 -53 2	47 9 -1 4 +1 6		+17 ^c +3 ^c	\$ 154 -15 4 -0 0	\$ 413 +9 0 +6 2
SOUTHERN ILLINOIS							
East St. Louis							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 100 -39 8 -38 7	17 4 -5 4 +2 4		n.a.	\$ 136 -11 7 9 3	\$ 94 -1 1 +9 3
Alton							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 130 -45 0 -76 2	25 2 -7 7 -1 2		n.a.	\$ 47 -16 1 -7 8	\$ 52 +6 1 +4 0
Belleville							
Percentage change from	(Oct., 1963, Nov., 1962)	\$ 235 -62 1 +83 0	15 0 +0 7 +7 9		n.a.	n.a.	\$ 81 +20 9 +6 6

* Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source.⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending December 6, 1963, and December 7, 1962.

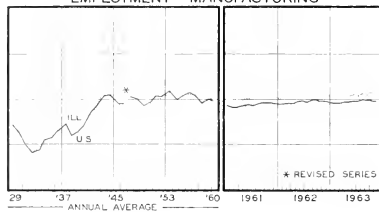
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

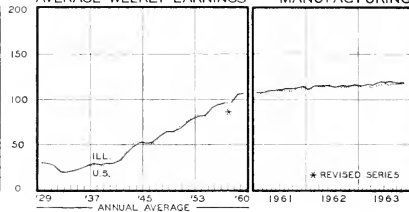
Illinois Historical Survey
116 Lincoln Hall

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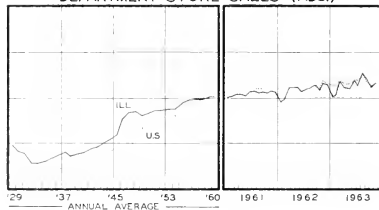
EMPLOYMENT - MANUFACTURING



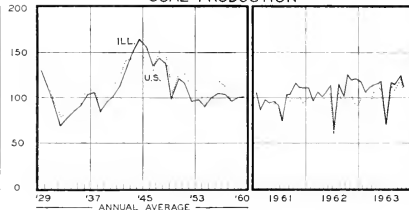
AVERAGE WEEKLY EARNINGS - MANUFACTURING



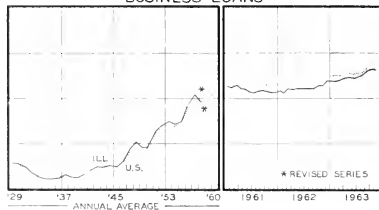
DEPARTMENT STORE SALES (ADJ.)



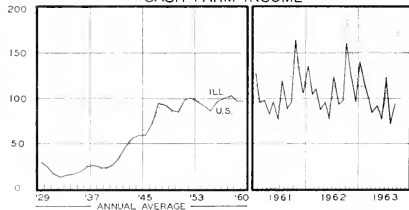
COAL PRODUCTION



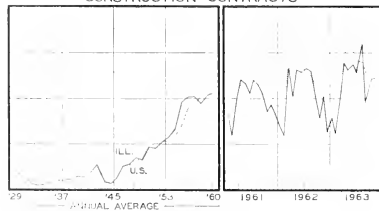
BUSINESS LOANS



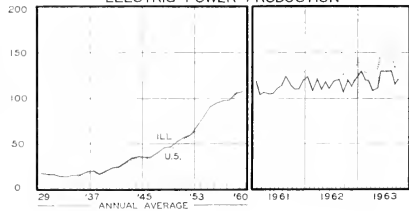
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

FEBRUARY, 1964

NUMBER 2

HIGHLIGHTS OF BUSINESS IN JANUARY

Major indicators show that business activity was well maintained in January. Steel output rose each week and exceeded 2.2 million tons of ingots the last two weeks of the month. Demand continues to surpass expectations and new orders have been well above production and shipments. Electric power consumption, coal output, and petroleum production were at high levels. The Federal Reserve Board's index of industrial production made another fractional advance, to 127.1 (1957-59 = 100).

Auto Sales Continue at Boom Level

Cars continued to sell at a fast pace in January, the fourth month of record deliveries for the 1964 models. Sales for the month totaled more than \$72,700, a high for the month which exceeded the previous record of January, 1963, by more than 5 percent. Chrysler showed the biggest gain over the year before and had its best January in seven years. Ford's sales were up nearly 9 percent and GM's 3 percent; for these two companies, it was the best January ever. American Motors bettered its January, 1963, sales by a very narrow margin.

Production also hit a new high in January. Output of nearly 743,800 cars was roughly 8 percent above the year-earlier level and over the previous January peak. General Motors and Ford both set new records for the month; and Chrysler production was the highest since 1960. American Motors closed briefly to bring its dealers' stocks into better balance. New car inventories rose sharply by nearly 160,000 to 1,110,000 cars. At that level, dealers had about 150,000 more cars in their stocks than they had a year earlier.

Instalment Debt Hits New Record

Instalment debt of consumers continued its upward climb in December to a new high of \$53.7 billion. The seasonally adjusted increase of \$460 million, equivalent to an annual rate of \$5.5 billion, was well above the November advance but fell below that of October. An increase in loans on automobiles, contrary to the usual seasonal movement, accounted for nearly half of the advance. Credit on other consumer goods and personal loans were also up substantially.

Total consumer instalment credit outstanding at the end of 1963 was \$5.7 billion greater than it had been a year earlier. The advance over the year was the largest on record; the previous record expansion was \$5.6 billion in 1959. Credit on automobiles rose 14 percent during the

year to \$22.2 billion; credit on other consumer goods was 9 percent higher, totaling \$13.8 billion. Personal loans rose 14 percent to \$14.4 billion. Noninstalment debt increased less than 7 percent over the year. Total consumer short- and intermediate-term debt increased more than \$6.7 billion (11 percent) to \$69.9 billion.

Sales Up

Sales of manufacturers and traders went to new highs in December with a gain of 2.6 percent over November, after seasonal adjustment. An unknown portion of this sizable rise reflects the postponement of buying in late November after President Kennedy's assassination. Manufacturers' sales were up 2.2 percent to \$35.8 billion; all of the increase occurred in the nondurable goods category. Retail sales showed the average advance, with nondurables marked by more strength than durables. Most major retail lines made substantial gains, particularly apparel and general merchandise among the nondurables and cars and appliances among the durables. Total retail sales for December were slightly more than \$21 billion.

For 1963 as a whole, manufacturing and trade sales totaled \$803.5 billion, 4.4 percent over the previous record established the year before. Shipments by manufacturers amounted to \$417 billion, up 4.3 percent. Durables made a larger-than-average advance; nondurables rose less than 4 percent. Sales in nearly all major lines exceeded those of 1962. Retail sales of \$246.4 billion were almost 5 percent greater than in 1962; here too durables were stronger than nondurable goods.

Construction Moves Seasonally

New construction put in place in January was estimated at \$4.6 billion by the United States Department of Commerce. The 13 percent drop from December was approximately the expected seasonal change; after adjustment the annual rate for January was up fractionally from that for December. The January value was, however, nearly 10 percent higher than the year-earlier level. Outlays for new private construction were off by the expected percentage to \$3.3 billion but also remained 10 percent above those in January, 1963. The largest category, residential building, showed a 9 percent increase over a year ago. Public expenditures for construction fell somewhat less than seasonally to a point 8 percent ahead of the year-earlier figure.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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A Case of Over-Selling?

The whole effect of the year-end outpouring of reviews and forecasts is a highly optimistic picture of the economy. The impression conveyed may be summed up in two points: First, there is one dominant factor in the outlook, namely, the tax cut; its effects will override everything else in carrying the economy upward in 1964. Second, all the other factors are also favorable or at least stable, ensuring a continuation of the recent pattern of progress for an indefinite period.

The strong consensus among business analysts conceals some serious weaknesses in this position.

Exaggeration of Tax Effects

Various analysts have estimated the total effects of the \$11 billion tax reduction in terms of increases in gross national product ranging from \$20 to \$45 billion. The Economic Report of the President speaks of "\$35 to \$45 billion." In earlier testimony before a Senate Committee on Employment and Manpower, the Council of Economic Advisers placed the figure at \$30 billion and explained its derivation as follows: Part of the \$11 billion tax cut would immediately produce an \$8.8 billion direct increase in personal disposable income, and over a billion more in higher dividends would come from the \$2.3 billion corporate tax reduction, making a total of \$10 billion. Since consumers spend over 90 percent of their disposable income, this would result in a direct increase in expenditures of over \$9 billion. Taking account of subsequent effects on producers' incomes, this would be multiplied by 2, making a total of \$18 billion, or 60 percent of the \$30 billion estimate.

In addition, there would be indirect effects on homebuilding, business investment, and state and local government programs, totaling \$5 to \$7 billion. These also would be subject to the multiplier of 2, so that the other \$12 billion of the \$30 billion total would thereby be realized. Other computations, with higher percentages, stronger indirect effects, and larger multipliers, can produce substantially larger estimates without straining too hard.

Any such computation is subject, of course, to considerable uncertainty. For example, the direct expenditures from after-tax income may be questioned. In the first place, theory indicates that the marginal rather than the average propensity to consume is applicable. Our computations put this at 77 percent instead of the 93 per-

cent of disposable income which is spent on the average; and there are other models which place it still lower. Furthermore, the tax reduction will be of lower efficiency than ordinary income, since the largest increases go to the high income classes: the \$5,000 income-earner will receive an additional \$2 a week, the \$10,000 earner an additional \$6 a week, and so on, into the income classes where weekly differences in take-home pay do not matter anyway.

These increments will be received, unfortunately, at a time when circumstances are particularly favorable to saving. The spenders can use them to pay off debt; and the savers have already been showing a strong inclination to put surplus funds into time deposits and other "safe" outlets for savings. Suppose the percentage spent turned out to be 60 instead of 93; then only \$12 billion in higher consumption would be realized. This shift to higher saving would, of course, reduce the average propensity to consume somewhat, but various methods of estimating indicate a decline of only one-half percent of disposable income, a difference that is well within the range of ordinary fluctuations. Such a shift could well be less, for example, than the adjustment that would result if consumers cut back the current high rate of dissaving in the form of credit expansion.

Assuming a Conclusion

There is some doubt also that any indirect effects can be depended on at this point. Most observers are still talking about the tax cut as if it were something entirely new, when in fact it has been under discussion for two years and its enactment in some form has appeared highly probable for a year. Businessmen who have seen it coming have not been sitting still during this period.

Within the course of 1963, business investment increased by over 10 percent. At the rate of \$41 billion in the fourth quarter, it was roughly back to the 1957 high, allowing for intervening price advances. Recent surveys show that only modest further increases can be expected in 1964. It should hardly surprise anybody that no investment boom is in sight. When the rate of investment is already high enough to meet the requirements of the best over-all growth that can be expected, there is no need for it to go higher still.

A year ago, the housing market was being viewed as a possible source of weakness in the economy. Instead it moved up further. Encouraged by the prospect of rising incomes and by the ready availability of mortgage financing, speculative homebuilding and apartment building spurted in the fourth quarter to the highest rate of a decade. The latest official forecasts place the 1964 total as equal to 1963. This would seem to imply a decline from the fourth quarter high in order to average 1964 down to the 1963 level.

The auto boom is moving into an advanced stage. Sales are running somewhat above last year's high level despite the tendency for an excess in one year to be offset by a deficiency in the next. Extremely high output is also due in part to the fact that increases in inventories are being tolerated in anticipation of the forthcoming negotiation of a new labor contract.

State and local government programs have also been set in the light of expected higher revenues. The Treasury put all the states on notice about what they should expect, and although some felt the forecasts to be optimistic, almost all agreed there would be some basis for expansion. These expectations may be disappointed; they are not likely to be further stimulated.

(Continued on page 8)

OIL IN ILLINOIS

Although Illinois produces only 3 percent of the nation's oil output, it ranks eighth among the states, and petroleum, as our leading mineral, does form an important part of our diversified economy. It is interesting to recall that in 1935 the State produced only about 0.4 percent of the national total.

In 1962 there were 78.8 million barrels of crude oil produced, giving a value at the well-heads of about \$237 million. Fayette County contributed 20 percent of the state's total output, Marion 13 percent, White 10, Lawrence 9, and Wayne 8 percent. In addition to the crude petroleum, an estimated 24 billion cubic feet of gas was obtained from Illinois wells in 1962. Estimates for 1963 indicate an oil output of 75.6 million barrels.

Oil production may be said to have started in 1889 when the Litchfield pool was discovered in Montgomery County. A drilling boom occurred in 1906-8, after oil was found in Clark County, and proved to be the beginning of the Southeastern Illinois Field. Drilling and production then languished—after a peak of 34 million barrels—until the discovery of the Clay City Field in the Illinois Basin in 1937. In 1940 an all-time peak of 148 million barrels was produced, and over the last 20 years output has ranged between 59 million and 82 million barrels.

The main oil areas now lie in that part of the State roughly southeast of Springfield to the Indiana border. Although 41 counties are involved in oil production, that with the highest output over the last 10 years is Fayette (112 million barrels) followed by White, Marion, and Wayne (65 million barrels). Historically, however, Marion County has produced the largest total, 340 million barrels out of 2.4 billion, or 14 percent.

Information on the oil industry is constantly collected by the State Geological Survey and the Interstate Oil Compact Commission, both of which issue surveys on the subject. Further details may be obtained from their publications.

Current Developments

In total, 1,879 new tests for oil and gas were reported completed in 1963, resulting in 898 oil wells. In addition, 79 former dry holes were recompleted as producers. Approximately 24 percent of the new tests were wildcats—drillings greater than one-half mile from production—and these produced 11 new pools and 20 extensions. The proportion of successful wildcats was down slightly from previous years. A recent development has been the discovery of oil in DeWitt County, some 25 miles north of previous production.

The importance of continuing exploration is realized when it is noted that at present rates of production, existing proven reserves in Illinois will last only about 6 years. More significant for the State has been the introduction of other methods of oil recovery. Waterflood operations started in 1942 and have increased consistently so that in 1962 almost 64 percent of total production was by these methods. Although waterflood

output is expected to decline, the nature of Illinois oil fields—none, for instance, is at present deeper than 6,000 feet—is such that they are particularly suited to new methods of recovery. Since 1955 the hydraulic fracture treatment has become a normal completion process.

Oil and Gas Consumption

Much more crude oil is refined in Illinois than is produced here: about 206 million barrels, or 2.6 times local production. However, not all the local product is refined in the State, since in 1961, for example, as much as 61 percent was shipped out.

The imports of crude oil for refining come from 13 other states, with Texas supplying 54 percent of the imports, Oklahoma 15 percent, Wyoming 10 percent, New Mexico 9 percent, and Kansas 5 percent. Comparing 1961 figures with 1956-60 averages, the quantities imported from Colorado, Louisiana, New Mexico, and Wyoming have increased significantly, whereas those from the Dakotas and Utah have declined.

Of the total 86 million barrels of crude petroleum that moves out of Illinois to refineries in other states, 73 percent goes to Ohio, 12 percent to Indiana, and the remainder to Michigan, New York, and Pennsylvania. The largest local refineries are located in the Chicago-Gary area and others in East St. Louis and the southeastern part of the State. Oil products refined here are exported to Indiana, Wisconsin, Minnesota, Iowa, and Missouri, by rail tank car, barge, or pipeline.

Broadly speaking, the refined products may be classified as gasoline, kerosene, distillates, and residual fuel oil. The first amounted in 1961 to just over half of the total refined products. There had in the past been a fairly steady growth in gasoline consumption, but since 1957 signs of a declining rate of growth have become apparent.

The next largest product group are the distillates, forming 29 percent of the total. This group has shown significant increases over the last two decades, although the rate has been flattening off more recently. The distillate product group had experienced considerable expansion in use as a source for domestic and commercial heating, although the impetus has now declined and, in addition, natural gas is proving a serious competitor. A similar rapid expansion of distillates occurred through the introduction of diesel-electric locomotives on the railroads. This became significant after the second World War, but by the middle 1950's, consumption had just about leveled off.

Consumption of residual fuel oil has stayed much steadier, and in 1961 represented 17.5 percent of the total. It competes with coal and natural gas fuels in industrial applications. Kerosene accounts for only 3.4 percent and is used in some types of prime movers and in specialized heating.

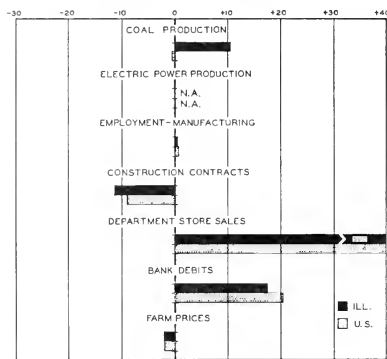
Of the natural gas produced in 1962, only about 3 percent was consumed here. When work is completed on existing projects, it will be possible to store 366 billion cubic feet of gas underground in the State.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, November, 1963, to December, 1963



* Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Dec. 1963 (1957-59 = 100)	Percentage change from Nov. 1963	Dec. 1962
Employment—manufacturing ¹	99.2	+ 0.2	+ 1.4
Weekly earnings—manufacturing ¹	120.8 ^a	+ 1.1	+ 3.3
Consumer prices in Chicago ²	105.8	+ 0.3	+ 1.1
Life insurance sales (ordinary) ³	159.8	+18.5	+16.0
Dept. store sales in Chicago ⁴	124.0 ^b	+ 6.0	+ 7.8
Farm prices ⁵	92.0	- 2.1	- 7.1
Bank debits ⁶	174.8	+17.3	+16.1
Construction contracts ⁷	109.5	-11.3	+74.7
Electric power ⁸	137.4	+11.6	+13.3
Coal production ⁹	125.0	+10.5	+ 2.8
Petroleum production ¹⁰	100.2	+ 5.1	+ 3.7

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Acqy. Mgmt. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Dec. 1963	Percentage change from Nov. 1963	Dec. 1962
	Annual rate in billion \$		
Personal income ¹	475.2 ^a	+ 0.6	+ 5.1
Manufacturing ¹			
Sales	429.6 ^a	+ 2.3	+ 6.5
Inventories	60.0 ^{a, b}	+ 3.8	+ 4.3
New construction activity ¹			
Private residential	25.7	- 8.0	+ 9.7
Private nonresidential	19.4	- 4.5	+ 8.9
Total public	18.4	-10.9	+14.2
Foreign trade ¹			
Merchandise exports	25.3 ^c	+ 1.2	+13.7
Merchandise imports	17.2 ^c	-10.4	- 1.4
Excess of exports	8.1 ^c	+39.7	+68.5
Consumer credit outstanding ²			
Total credit	68.9 ^b	+ 1.7	+10.8
Installment credit	53.7 ^b	+ 2.0	+11.9
Business loans ²	45.3 ^b	+ 6.5	+ 9.1
Cash farm income ³	50.7 ^a	-20.4	+ 3.9

Item	Indexes (1957-59 = 100)	Percentage change from Nov. 1963	Dec. 1962
Industrial production ²			
Combined index	127 ^a	+ 0.4	+ 6.8
Durable manufactures	127 ^a	+ 0.5	+ 6.9
Nondurable manufactures	129 ^a	+ 0.3	+ 6.5
Minerals	107 ^a	- 1.0	+ 3.8
Manufacturing employment ⁴			
Production workers	101 ^a	+ 0.8	+ 1.8
Factory worker earnings ⁴			
Average hours worked	103	+ 0.7	+ 0.7
Average hourly earnings	117	+ 0.4	+ 3.3
Average weekly earnings	120	+ 1.1	+ 4.1
Construction contracts ⁵	119	- 9.0	+ 6.7
Department store sales ⁶	127 ^a	+ 8.5	+ 8.5
Consumer price index ⁷	108	+ 0.2	+ 1.7
Wholesale prices ⁸			
All commodities	100	- 0.4	- 0.1
Farm products	93	- 3.0	- 4.1
Foods	100	- 2.0	- 0.5
Other	101	+ 0.3	+ 0.5
Farm prices ⁹			
Received by farmers	98	- 2.0	- 3.0
Paid by farmers	106	0.0	0.0
Parity ratio	76 ^d	- 1.3	- 3.8

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for November, 1963, compared with October, 1963, and November, 1962. ⁹ Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1964				1963	
	Jan. 25	Jan. 18	Jan. 11	Jan. 4	Dec. 28	Jan. 26
Production:						
Bituminous coal (daily avg.)	1,535	1,403	1,560	1,570	1,245	1,259
Electric power by utilities	18,549	19,383	18,869	18,152	17,932	18,321
Motor vehicles (Wards)	212	189	207	147	154	179
Petroleum (daily avg.)	7,625	7,679	7,664	7,574	7,603	7,245
Steel	118.7	114.3	113.8	109.3	96.8	100.0
Freight carloadings	543	510	542	500	376	462
Department store sales	97	95	108	98	163	82
Commodity prices, wholesale:						
All commodities	100.9	100.9	100.6	100.6	100.5	100.5 ^a
Other than farm products and foods	101.2	101.2	101.1	101.1	101.1	100.7 ^a
22 commodities	95.6	96.1	95.7	95.4	95.5	93.7
Finance:						
Business loans	37,424	37,641	37,818	38,793	37,858	34,291
Failures, industrial and commercial	295	254	321	204	158	321

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for January, 1963.

RECENT ECONOMIC CHANGES

Crop Production High

The Department of Agriculture reports that last year's all-crop volume reached 112 percent of the 1957-59 average. This compares with 107 percent in 1962 and the previous high of 108 in 1960. Output of feed grains—corn, grain sorghums, oats, and barley—reached 156 million tons, 9 percent more than in 1962. Leading the way was the record corn crop, which passed 4 billion bushels for the first time. This was 10 percent above 1962's crop and 3 percent more than the previous record set in 1960. The yield per acre of corn was 67.3 bushels, exceeding the previous year's record yield by 3.1 bushels.

Soybean production climbed to 727.4 million bushels, 7 percent above the previous high. The wheat crop totaled 1.1 billion bushels, 3 percent above the 1962 crop and the first increase in production in three years. The major crop to show a decline in production from 1962 was hay, which fell 4 percent from the record of 1962, but the amount produced was equal to the average crop over the last 10 years.

Gross National Product

The nation's output of goods and services rose in the fourth quarter of 1963 to a seasonally adjusted annual rate of \$600 billion, the highest ever recorded. The advance brought the total for the year to a record \$585 billion, 5.5 percent above the 1962 level. With prices rising at the relatively slow rate of 1.5 percent per year, national output increased 4 percent for the third consecutive year.

During the year disposable income increased 4.7 percent over 1962 to \$403 billion, and personal consumption expenditures expanded about 5.0 percent to \$373 billion. Contributing heavily to the 1963 advance was a 6.9 percent rise in spending for durable goods, mainly autos,

which had their best year since 1955. In addition, spending on nondurable goods rose 3.6 percent, and service expenditures continued their postwar expansion by increasing 6.0 percent over 1962. Personal saving remained at approximately \$29 billion, or about 7.3 percent of disposable personal income.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(Billions of dollars)

	1963	1962	4th Qtr. 1963*
Gross national product.....	585.0	554.9	600.0
Personal consumption.....	373.2	355.4	380.0
Durable goods.....	51.5	48.2	53.5
Nondurable goods.....	167.2	161.4	168.8
Services.....	154.5	145.7	157.6
Domestic investment.....	82.3	78.8	87.0
New construction.....	46.9	44.4	50.0
Producers' durable equipment.....	31.1	28.8	33.1
Change in business inventories.....	4.7	5.5	5.3
Nonfarm inventories only.....	4.3	4.9	4.4
Net exports of goods and services.....	4.4	3.8	5.0
Government purchases.....	125.1	117.0	128.0

INCOME AND SAVING

	1963	1962	N.A.
National income.....	478.4	453.7	473.0
Personal income.....	463.0	442.1	473.0
Disposable personal income.....	402.6	384.4	411.3
Personal saving.....	29.1	29.1	30.0

* Seasonally adjusted at annual rates.

Source: U.S. Department of Commerce.

Inventories Remain Stable

During the present business expansion the ratio of business inventories to sales has gradually declined. In 1963 businesses increased their inventory holdings by nearly \$5 billion but, since sales increased about proportionally, the inventory-sales ratio continued to remain fairly stable. Early in 1963, a build-up in steel inventories as a hedge against a possible strike had a stimulating effect on steel production; but the subsequent cutback in orders due to the need to liquidate the accumulated stocks caused a sharp decline in steel output that lasted till the fourth quarter. The destablizing effect of this liquidation was offset however, by additions to stocks in other industries, mainly nondurable goods.

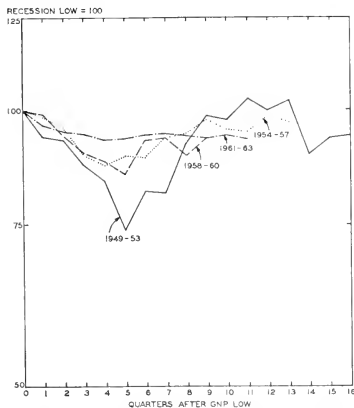
As the accompanying chart indicates, the inventory-sales ratio has been less volatile in the current expansion period than it was in previous periods. The downturn in inventory accumulation during this period failed to go as low as expected and the expected upturn in inventory accumulation, which occurred in previous periods, has failed to materialize.

Housing Starts

Construction was begun on over 1.6 million housing units in 1963, compared with 1.5 million in 1962. Privately owned housing starts accounted for all but 30,000 of the total and were up 9 percent over the 1.46 million starts recorded in 1962. During December, 1963, the number of housing units started was 98,900, compared with 120,600 in November and 94,900 in December, 1962.

Regional changes in housing starts were somewhat mixed during the year. A drop of 4.1 percent was recorded in the Northeast region but the North Central, South, and West regions showed increases of 7.6, 12.5, and 12.9 percent respectively. The West again had the greatest number of starts with 410,000. The Northeast meanwhile fell to last place with only 232,000 starts in 1963.

MANUFACTURERS' INVENTORY-SALES RATIOS



Source: Seventh Federal Reserve Bank, *Business Conditions*, January, 1964, p. 4.

PRESIDENT JOHNSON AND THE BUDGET

FRED M. GOTTHEIL, Assistant Professor of Economics

President Johnson has demonstrated once again, and to no one's surprise, his mastery in the art of politics. For in the very short space of two months, he has managed to construct one of the most vital pieces of contemporary presidential equipment—the dynamic image.

Almost immediately after assuming the high office, President Johnson set down the pivotal points of his Administration's trademark: economy and war on poverty. This he was able to do without retreating in any way from his commitment to the Kennedy program. The basic ingredients are the same; only the emphasis is altered.

The Johnson budget purports to reflect the image. It calls for a total administrative expenditure of \$97.9 billion, which is a half billion less than its predecessor. Total receipts are estimated at \$93 billion, generating a federal deficit of \$4.9 billion (see chart). This represents a 50 percent cut in the deficit from 1964 and is heralded as a giant step toward a balanced budget.

The new budget fulfills its defense commitment with economy savings of over \$1 billion. It promotes the Kennedy-inspired space program by assigning \$5 billion to space technology, which is a half billion more than the 1964 expenditure. Its war on poverty, designed to eliminate conditions that separate one-fifth of the American people from the fruits of our expanding economy, calls for \$1 billion of new funds in the first year.

Presidential Autonomy

It would not be entirely correct to evaluate the President's position concerning the role of government in the economy strictly on the basis of his budget. For much of what constitutes the federal budget is determined by forces operating outside his office. The restraints imposed upon the President by the business community, specific regional interests, our international obligations, national security considerations, and by general expenditures associated with the ordinary practice of administration have usurped a substantial percentage of federal money, and consequently reduced presidential autonomy.

For example, consider the \$11 billion outlay for interest payments on the national debt. Of the \$317 billion debt estimated for 1965, approximately three-fourths is directly related to World War II and prior periods. These are long-standing federal obligations, and the President has no effective alternative on interest payments, which are expected to rise by \$400 million.

Government expenditures are, by nature, controversial, but some are more controversial than others. Items such as veterans' benefits, natural resources, general government, commerce, and transportation, which account for \$13 billion in the budget, generate little congressional heat. Some are expected to expand gradually.

Agricultural expenditures, somewhat more controversial, are well endowed with political support. These came under the Johnson economy knife and fell to \$4.9 billion, the lowest since 1960. The agricultural problems, however, remain unabated, and since most of these programs operate on continuing authorizations, expenditures may well be greater than the budget estimates.

The so-called welfare items in the 1965 budget total \$7.8 billion, and increases in many of these are parts of the war-on-poverty program. Only \$4.3 billion is directly related to economic-aid expenditures, such as public assistance, area redevelopment, manpower development, and

vocational rehabilitation. Although controversial, the sums allocated to welfare are precariously minimal and, if the war on poverty is to be taken seriously, will have to be greater than the budget estimates.

Perhaps the most controversial but among the least significant in value terms are the federal aid to education and foreign aid items in the budget. These were strong political issues in the Kennedy years. Together they account for about \$4 billion, and any change is likely to have little influence on the budget as a whole.

Thus the freedom afforded the President in the preparation of his budget is, at least on those items mentioned, greatly restricted. The natural movement, marked over the years, has been upward. The probability is high that, whatever the President's intentions, the actual expenditures in 1965 on these items will be somewhat higher.

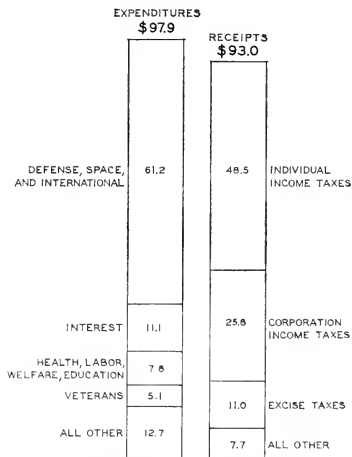
There remains, however, one important item in the budget that may offer the President much greater opportunity for influencing both the size and the composition of the budget. This item, whose dollar outlay exceeds the combined total for all others, is defense spending.

The Defense Item

Federal defense spending, including outlays for space technology, increased by \$11.5 billion or by roughly one-fourth during the three Kennedy years. There was "a 100% increase in the number of nuclear weapons available in the strategic alert forces" during this period.

THE FEDERAL BUDGET

(Billions of dollars)



FISCAL YEAR 1965 ESTIMATE

Source: Executive Office of the President, Bureau of the Budget.

The demands for national security, like demands for any form of protection, depend largely upon the activities of those against whom the protection is sought. Such activities are not always clearly perceived. Among considerations that determine the size of the defense item is the counterpart action by the Communist world. When Soviet military capability increases, our national security is lessened, and we respond with larger programs to preserve the pre-existing levels of security.

Attempts to increase security on our part have been generally unsuccessful. For any real increase is short-lived. Once discovered, it generates greater defense efforts by the Soviets. When this occurs, the net increase in security is offset, but the totals in defense spending by both parties rise. Fruitless arms races spiral in such an environment. So intensely have we engaged in this activity that new concepts have been invented, for example, "overkill," to describe the technical levels achieved by our mounting defense item.

Another factor influencing the size of our defense spending is the military-industrial complex. In his farewell address to the nation, President Eisenhower warned against the growing influence in American life, and on defense spending particularly, of an "immense military establishment and large arms industry."

This "industrial-military complex," with its "potential for the disastrous rise of misplaced power," is an outgrowth of the cold war. The enormous defense demands have created new industries and committed others to full-scale military production. These politically powerful industries now depend upon defense contracts for economic survival and are understandably ultra-sensitive to changes in defense purchases. The recent McNamara-Air Force controversy over the production of the RS-70 aircraft is a classic example. At issue was not simply the aircraft's contribution to national security, but also its contribution to the Boeing corporation and the state of Washington. But neither Boeing nor Washington is unique. In Kansas, New Mexico, California, and Connecticut, as in Washington, 20 to 30 percent of all manufacturing employment is based on defense contracts.

The Johnson defense budget, including space, is \$59 billion. This represents a cut of \$700 million from the 1964 defense budget, which was a postwar high. The saving, if actually realized, will thus be little more than 1 percent, a token reduction. The President has emphasized that the defense saving in no way sacrifices our "military capability. Instead, it reflects the diminishing need for larger additions to force levels and stocks of supplies and equipment . . . and increasing economies under the cost reduction programs." The continued phasing-out of the B-47 bomber program and the older Atlas missiles provide examples; cutbacks in nuclear materials are also consistent with military requirements.

The President's publicized economy drive in defense spending seems, upon inspection, far less dramatic than its advance billing. He does suggest the possibility of further savings up to \$4 billion in fiscal 1965, but this is highly speculative.

Although little change has been recorded in the 1965 defense budget, it is still this item that unquestionably offers the greatest potential. The \$4 billion figure suggested by the President is conservative. Budgetary savings in the region of \$10 to \$20 billion are possible without agreements on disarmaments. The major obstacle is the military-industrial complex. Yet the key to the greatest source of savings is in obtaining an international agreement on arms reduction that will put an end to the

arms race and begin the rational process of arms reduction. Professor Emile Benoit of Columbia, an authority on the economics of arms and disarmament, describes as realistic a \$10 billion defense budget by 1977 if disarmament could be attained.

War on Poverty

The President's war on poverty, like his economy drive, is not forcefully demonstrated in the budget. New obligatory authority, the forerunner of federal expenditures, of \$500 million is specifically assigned to this item. The actual estimated direct expenditure in the administrative budget is only \$200 million. The detailed report to the nation on the government's role in alleviating poverty is still to come.

The budget has this to say on the so-called war on poverty. "In a nation as rich and productive as ours we cannot tolerate a situation in which millions of Americans do not have the education, health, and job opportunities for a decent and respected place as productive citizens. The vicious circle of poverty—in which one generation's poverty, ignorance and disease breed the same problems for the next—must be broken. I propose to break that circle by raising the educational, skill and health levels of the younger generation, increasing their job opportunities and helping their families to provide a better home life."

The extent of poverty in the United States depends upon the accepted definition. The President's description includes 20 percent of the American people. These people, he reports, earn less than \$600 per capita, far below the \$2,100 per capita average for the nation.

Concerned with the same problem, Wisconsin Professor Robert Lampman, in a report to the Joint Economic Committee of the Congress in 1959, estimated that 32 million Americans classify as low income people. This figure is equivalent to the President's 20 percent. These are people who, as single member families, earn under \$1,157; as two member families, earn under \$1,638; as three member families, earn under \$2,106; as four member families, earn under \$2,516, and as seven or more member families, earn under \$3,750. The Lampman study reveals that unlike the great majority of Americans, these people are excluded from sharing the fruits of our expanding economy.

The determinants of low income, he finds, are the age, education, color, and sex of the breadwinner, the location and number of family members. For example, he discovered that although nonwhites are 10 percent of total population, they are 22 percent of the low income group. Ten percent of all family heads are females, but they constitute approximately 24 percent of this group. Also, although people over 65 years of age are only 8.5 percent of total population, they represent 25 percent of the low income people. Two-thirds of this group have had no more than grammar school education.

Many of these contributing factors to poverty will persist. Lampman shows that in 20 years 9.5 percent of the population will be over 65 years old. With decreasing retirement age levels, this problem will become more acute. Also, the percentage of nonwhites in the population is steadily increasing. The solutions recommended by Lampman are much the same as those set down in the budget, that is, increased federal expenditures on education, health, and welfare.

If we distributed the \$500 million of new obligatory authority set down in the 1965 budget to war on poverty among the low income 20 percent of our population, it

would amount to about \$15 each, or roughly 30 cents a week. Taking the lower figure of \$200 million, the per capita outlay is \$6. As the *New York Times* remarked, this is scarcely adequate for even an initial skirmish.

Size of the Budget

Although budget chopping is not an unattractive activity in an election year, it seems unlikely that the President will be able to carry off a real reduction. The *Wall Street Journal* asserts that the budget's reduction is "as filled with gimmicks as a Rube Goldberg invention." In support of this statement, it cites several items that could convert the half billion decline in expenditures to a definite, but not large, increase.

But even to have contemplated an over-all reduction in federal expenditures seems to put President Johnson in the position of agreeing that too much of our national product has been allocated to the public sector. Although it is difficult to define an optimal-sized budget, many economists are convinced that the opposite is true.

Alarming deficiencies have grown in the public sector. Expenditures on education, health, urban renewal, natural resources, low-cost housing, institutional care for dependent and aged persons, and other vital social services have not kept pace with growing demands. The President's commitment to war on poverty within a fixed budget total makes the problem even more acute.

The federal expenditures on civilian items in the estimated 1965 budget amount to \$22.7 billion. This represents a \$100 million increase over the previous budget. Since 1956, the percentage of gross national product devoted to this item has remained fairly constant (see table). The defense item in the table refers to expenditures on defense and space technology. The past wars item refers to expenditures on veterans' benefits and interest payments. All remaining expenditures are included in the civilian item.

The less than \$2 billion increase in civilian expenditures made during the Kennedy and Johnson administrations points out the growing imbalance between the private and public sectors. The additional federal expenditures required to make up deficiencies in this item during the 1960's have been estimated at \$50 billion. A continuation of the present policy which seeks to satisfy only the most pressing demands in the public sector cannot make up this large deficiency. In fact, stability in government spending may, by itself, frustrate the President's efforts to stimulate growth in the economy by means of a tax cut. His report itself notes the sobering fact that 11 percent of the increase in GNP since 1961 is directly attributable to federal spending.

If the tax cut is used to explain the Administration's reluctance to increase expenditures on the civilian items, then the tax cut may well have been the poorer choice of the two alternatives.

COMPOSITION OF FEDERAL EXPENDITURES

(Fiscal years; billions of dollars)

	1956	1960	1962	1964	1965
Defense	40.8	46.0	52.4	59.7	59.0
Past wars	11.7	14.3	14.6	16.1	16.2
Civilian	14.0	16.9	20.8	22.6	22.7
Total	66.5	77.2	87.8	98.4	97.9
Civilian as percent of total	21.0	22.0	22.5	23.0	23.0
Civilian as percent of GNP	3.8	3.3	3.7	3.7	3.6

A Case of Over-Selling?

(Continued from page 2)

Advance distribution of the tax cut, therefore, makes the picture distinctly mixed, with some items more likely to go down than up. After the first few months of direct impact, the effects of the tax cut will be distinctly lower. At that point, moderate downturns in any of three factors—homebuilding, inventory accumulation, or consumer credit expansion—would be sufficient to bring the advance to a halt. To project its continuation, it is necessary to assume that everything will stay high or continue up. But this is a strained assumption.

Theory of Public Finance

None of the foregoing comments, it may be noted, is an attack on the tax cut as such. If anything, they stress the need for it. Even though the further effects of the tax cut should be only a third of the \$30 to \$45 billion now being talked about, its importance in adding to what has already been gained should not be minimized.

There is another aspect of this affair, however, that may not have such a happy outcome. In the recent theory of public finance, it is commonly held that government expenditures should be determined independently, in terms of the need for various programs; that the over-all total of taxes should be set according to the need for speeding or slowing the pace of economic activity; and that the kind of taxes imposed should be designed to provide equity among the various groups of taxpayers.

In its original form, the current tax bill took some account of all parts of this theory. The primary goal was, of course, faster economic growth. Nothing was said in the first instance about expenditure programs, and a certain amount of tax reform was proposed. In Congress, however, all the logic became blurred.

There is a tendency on the part of proponents of any important measure to feel that a certain amount of equity and efficiency can be sacrificed for the main objective. As Congress stalled action through the months of 1963, reforms were whittled away. The bill that has emerged represents a substantial loss in progressivity in the federal tax system. It aggravates a trend most clearly displayed in the sharp rise in payroll taxes since 1950.

Another consequence of the delay was pressure on expenditure programs. When passage could not be obtained in 1963, the bill was carried over into the period of the new budget, and it was made to seem that it could not be passed then without some offsetting reductions in expenditures. President Johnson's economy program is patterned on this thesis. Expenditures are still moving up because of certain built-in increases, but in the absence of new programs, the stimulus of federal spending to economic expansion will soon be lost. Few people seem to realize how much the economic advance of the last three years has depended upon rising expenditures at all levels of government.

In a strong growth economy, the government may hold back its spending and tolerate a certain amount of inefficiency or inequity in taxation. Today, many other parts of the economy appear to be rather fully extended, and the situation does not permit so much latitude. Any failure in the outcome, regardless of the merits of what was proposed, is likely to be interpreted as a demonstration of fallacy in the theories underlying the Administration's program. Is it really a good idea, then, to tell the people that everything will be all right if only the tax bill goes through?

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Food Spoilage Reduced

Several kinds of perishable foods have recently been treated with light doses of gamma radiation in tests at the United States Department of Agriculture laboratory in Fresno, California, in order to reduce spoilage before the foods reach the consumer. Preliminary results indicate that this new technique is effective in controlling decay organisms which attack produce during the marketing period. The gamma rays used in the tests were the "clean" type, which induce no radioactivity in the products treated; and continuous radiological tests by a separate testing team resulted in negative reports on possible contamination during treatment.

Tests were also made with dried fruits and grains and with products which tend to become insect-infested in storage. This additional work is now being evaluated.

Occupational Change

The size and character of employment in industry, business, and government have changed greatly over the years. Bureau of Labor Statistics studies show some groups of occupations growing rapidly, others declining, and still others rising or falling from one decade to the next without any consistent pattern.

Professional and other white-collar occupations have grown fastest since 1900, while farm occupations have declined most rapidly. Numbers of skilled, semiskilled, and service workers have fluctuated from one generation to the next, with net gains of 20 to 25 percent since 1900.

The further changes that are expected to take place between 1960 and 1975 in the major nonfarm occupational groups are indicated in the accompanying chart. In de-

veloping these projections the BLS took into account the expected increase in the size of the labor force, the continuing changes in technology, the changing demands of the population for goods and services, and the anticipated future requirements of each industry. The outlook is for all of the nonfarm occupations except operators and kindred workers to expand more rapidly than the average of 31 percent for all employment. The number of laborers (excluding farm and mine) is not expected to increase at all, and the number of farmers, farm managers, and farm workers will continue to decline.

In addition to this over-all picture, career information has recently been published in the latest *Occupational Outlook Handbook*. The *Handbook*, now in its sixth edition, presents information explaining specific job patterns and opportunities, characteristics of related occupations, and trends affecting the nature and number of jobs. Nearly 700 occupations, with their characteristics and requirements, are discussed and analyzed in addition to past, current, and future employment trends. The 792-page *Handbook* is Bulletin No. 1375 of the Bureau of Labor Statistics and may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, for \$4.75.

Manpower Training

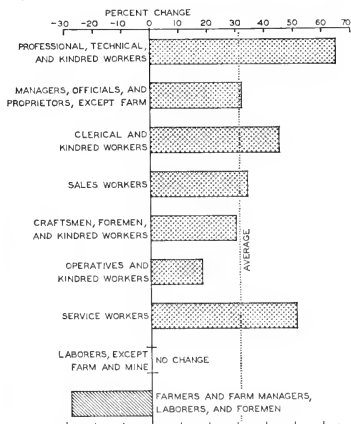
By mid-1963, over 1,600 training projects had been approved for nearly 60,000 trainees and 300 different occupations under the Manpower Development and Training Act of 1962. About 1,500 of the projects have been developed by federal and state employment security and state vocational education agencies to provide institutional training for 57,000 trainees. So far the emphasis of the program has been placed largely on aiding the occupational shifts taking place in the economy because of technological progress and changes in the structure of industrial demand.

The most important test of the effectiveness of re-training is found in the extent to which workers are placed in appropriate jobs. So far nearly 70 percent of the graduates of these programs are finding employment, with nearly all of it being in training-related jobs. Of the 7,300 graduates who have been placed, four-fifths have obtained their jobs from state employment agencies.

Urban Research

The Urban Land Institute of Washington, D.C., an independent research organization specializing in urban land use and development, has just issued its annual monograph, *Urban Real Estate Research—1962*. This monograph lists all the published works and research in process dealing with the various phases of urban development during 1962. According to the Institute, there has been a 100 percent increase in the number of research projects being done on urban land use in the past five years, and there was a 10 percent increase in 1962 over 1961. The monograph covers such topics as community analysis, central business districts, highways and expressways, effects of airports, and other subjects of interest in urban land research, and lists bibliographies on these topics. Copies of this publication can be purchased for \$4.00 from the Urban Land Institute, 1200 18th Street, N.W., Washington, D.C. 20036.

PROJECTED CHANGES IN EMPLOYMENT, 1960-75



Source: U.S. Department of Labor, *Occupational Outlook Handbook*, 1963-64 edition, p. 23.

LOCAL ILLINOIS DEVELOPMENTS

Chicago Area Business Outlook

A recent survey conducted by the Chicago Association of Commerce and Industry shows that 639 firms employing about 171,500 workers in the Chicago metropolitan area expect 1964 to be a good year as measured by sales, profits, and employment. Increased sales are expected by 78 percent of all the firms, and lower sales by 5 percent of the firms. Higher profits are expected by 57 percent of the respondents and lower profits by 13 percent.

Employment increases in the Chicago area are anticipated by 39 percent of all the firms and decreases by only 6 percent. On an absolute basis, the estimated overall net employment increase comes to about 4,400 persons, or 2.6 percent of the employees covered by the survey.

Educational Expenditures in Illinois

According to the National Education Association, Illinois is a leading state in terms of public school spending. For the 1963-64 school year, total estimated gross expenditures for the State stand at about \$1.1 billion. This represents the sum of expenditures for elementary and secondary day schools; miscellaneous services such as community colleges, adult education, and summer schools; capital facilities; and interest on school debts. Both gross and net outlays show increases of about 8 percent over the 1962-63 year.

Presently, the State spends an estimated net amount of \$900 million to educate approximately 2.2 million pupils in the public schools. The outlay per pupil in average daily attendance is \$479, an increase of nearly 5 percent over 1962-63. In the Midwest region, Illinois ranks behind Minnesota and Wisconsin, which spend \$509 and \$498 respectively.

The average teacher's salary in Illinois is \$6,645, an increase of 4 percent over 1962-63. Furthermore, this figure is about 11 percent over the national average of \$5,963 and about 2 percent above the \$6,503 for Michigan,

the state second to Illinois in the Midwest area. On a nationwide basis, Illinois ranks fifth. Alaska leads with an average salary of \$8,150, but high living costs there in relation to those elsewhere in the United States in effect reduce this figure by one-fourth. Other leading states are California (\$7,375), New York (\$7,200), and Connecticut (\$6,675).

New City Planned

One of the most ambitious development projects ever to be undertaken in the Chicago area is being planned for the coming year. This spring, initial construction activities are intended to begin for the \$550 million development of Weston, Illinois, by the Riley Management Corporation. The completely preplanned city, to be located 19 miles west of the Chicago city limits, is to cover over 4,700 acres and is to have a population of 50,000. Upon completion (expected by June, 1965), Weston is to be the tenth largest city in the State.

At the heart of the community will be a shopping center with a capacity of 1,800 store units. Weston is to offer a complete range of urban facilities and services. Included are municipal buildings and a public library; banking facilities; five elementary schools and one high school; a hospital, a nursing and convalescent home, and a high-rise medical office building; 1,000 acres of park areas and other recreation facilities; a 105-acre small-craft airport; and churches of major faiths.

Housing facilities, to be sold on conventional mortgage terms, are to range from low-cost single units to \$75,000 estate homes and a variety of apartment rental units. Low tax and utility rates and ample power and water supplies are among inducements to be offered business to locate within the corporate limits of Weston. A free bus transportation system is to serve all areas of the city. A 688-acre tract, which is to be set aside for industrial uses, is traversed by a main railway line.

Illinois Mineral Production

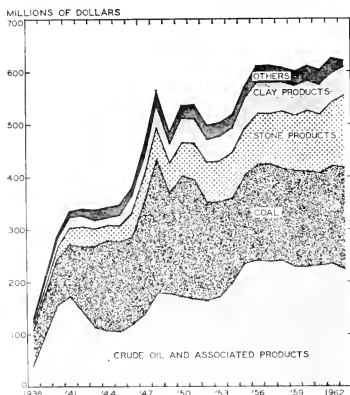
Mineral production was estimated by the State Geological Survey at a value of \$624 million in 1963, about 1 percent less than the 1962 record production of \$631 million (see chart). Since 1938, the value of minerals produced in the State has shown an almost fourfold increase, with the largest upsurges taking place during the 1940's. Since 1955 the value of mineral production has remained fairly stable. About two-thirds of the total value of all minerals produced has been accounted for by crude oil and coal, and the remaining one-third by stone, sand, and gravel; clay products; flint, zinc, and lead.

Crude oil and associated products were valued at \$225 million in 1963, \$11.4 million less than in 1962. The decrease was due partly to lower crude oil prices and partly to the fact that less oil was produced even though the number of wells drilled was about the same.

Coal production, valued at \$195 million, showed an increase of \$8.5 million, or 4.6 percent, over 1962. Much of the increase was due to higher demands for coal for electric power generation. Illinois, the nation's fourth largest coal producer, is exceeded only by West Virginia, Kentucky, and Pennsylvania. Williamson, Christian, Fulton, and St. Clair counties lead the State in production.

Stone products, sand, and gravel had a combined value of \$137 million. The gain of 11.4 percent over the \$123 million recorded for 1962 reflects increased levels of construction activity throughout Illinois.

ILLINOIS MINERAL PRODUCTION



Source: Illinois State Geological Survey.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1963

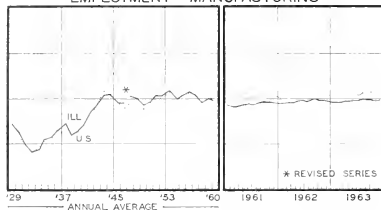
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000,000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$38,126 ^a	1,517 6 ^a			\$29,056 ^a	\$23,809 ^a
Percentage change from	Nov., 1963	+53 8	+5 2		+56	+17 3	+12 9
	Dec., 1962	+60 7	+5 9		+8	+16 1	+16 9
NORTHERN ILLINOIS							
Chicago		\$23,849	1,076 4			\$27,232	\$19,863
Percentage change from	Nov., 1963	+65 2	+5 5		+56	+18 4	+10 3
	Dec., 1962	+44 9	+3 6		+8	+16 9	+16 6
Aurora		\$ 777	n.a.			\$ 102	\$ 256
Percentage change from	Nov., 1963	+33 3			n.a.	+3 0	+28 0
	Dec., 1962	+39 0				+13 3	+23 1
Elgin		\$ 378	n.a.			\$ 63	\$ 226
Percentage change from	Nov., 1963	-8 9			n.a.	+6 8	-14 1
	Dec., 1962	+78 3				+10 5	+40 1
Joliet		\$ 4,446	n.a.			\$ 102	\$ 214
Percentage change from	Nov., 1963	+588 2			+61	-0 0	+35 4
	Dec., 1962	+1,775 9			+7	-2 9	+16 3
Kankakee		\$ 143	n.a.			n.a.	\$ 104
Percentage change from	Nov., 1963	-50 5			n.a.		+28 4
	Dec., 1962	-52 5					+8 3
Rock Island-Moline		\$ 687	50 9 ^b			\$ 147 ^b	\$ 295
Percentage change from	Nov., 1963	-29 0	-4 9		n.a.	-3 9	+25 0
	Dec., 1962	-50 2	+18 4			+2 8	+18 5
Rockford		\$ 1,405	64 1 ^c			\$ 238	\$ 449
Percentage change from	Nov., 1963	+6 8	+0 3		+63 ^c	+0 8	+33 6
	Dec., 1962	+57 2	+2 1		+5 ^c	+4 4	+13 4
CENTRAL ILLINOIS							
Bloomington		\$ 278	14 6			\$ 108	\$ 188
Percentage change from	Nov., 1963	-30 2	+9 8		n.a.	+12 5	+34 3
	Dec., 1962	+61 6	-2 0			-1 8	+21 3
Champaign-Urbana		\$ 580	22 8			\$ 108	\$ 237
Percentage change from	Nov., 1963	-8 2	+7 5		n.a.	-2 7	+35 4
	Dec., 1962	+61 1	+17 5			+8 0	+23 4
Danville		\$ 259	23 1			\$ 59	\$ 129
Percentage change from	Nov., 1963	-40 9	+6 5		+70	-0 0	+24 0
	Dec., 1962	+82 4	+16 7		+5	+5 4	-0 8
Decatur		\$ 387	45 5			\$ 140	\$ 217
Percentage change from	Nov., 1963	+22 6	+1 1		+59	-4 1	+40 0
	Dec., 1962	+87 0	+13 2		+10	+9 4	+21 9
Galesburg		\$ 694	13 8			n.a.	\$ 84
Percentage change from	Nov., 1963	+697 7	+15 0		n.a.		+37 7
	Dec., 1962	+207 1	+16 9				+18 3
Peoria		\$ 1,580	75 7 ^c			\$ 318	\$ 569
Percentage change from	Nov., 1963	+39 0	+7 1		+62	+5 0	+35 5
	Dec., 1962	+45 5	+9 1		+6	+12 0	+25 1
Quincy		\$ 840	16 9			\$ 67	\$ 135
Percentage change from	Nov., 1963	+24 2	+10 5		n.a.	+8 1	+21 6
	Dec., 1962	+260 5	+10 5			+11 7	+9 8
Springfield		\$ 418	53 2			\$ 169	\$ 459
Percentage change from	Nov., 1963	-76 5	+11 1		+55 ^e	+9 7	+11 1
	Dec., 1962	-56 8	+7 0		+7 ^e	+8 3	+6 7
SOUTHERN ILLINOIS							
East St. Louis		\$ 1,034	18 7			\$ 147	\$ 173
Percentage change from	Nov., 1963	+934 0	+7 5		n.a.	+8 1	+81 0
	Dec., 1962	+2,854 3	+6 9			+2 8	+27 2
Alton		\$ 69	26 0			\$ 56	\$ 88
Percentage change from	Nov., 1963	-46 9	+3 2		n.a.	+19 1	+69 2
	Dec., 1962	+35 3	+1 2			+5 7	+27 5
Belleville		\$ 302	15 9			n.a.	\$ 123
Percentage change from	Nov., 1963	+28 5	+6 0		n.a.		+51 9
	Dec., 1962	+45 9	+11 2				+24 2

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. ^d Not available.¹ Local sources. ² Data include federal construction projects. ³ Local power companies. ⁴ Illinois Department of Revenue. Monthly data not available. ⁵ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source.⁶ Federal Reserve Board. ⁷ Local post office reports. Four-week accounting periods ending January 3, 1964, and January 4, 1963.

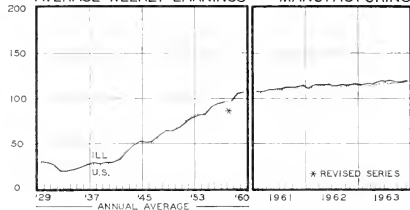
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

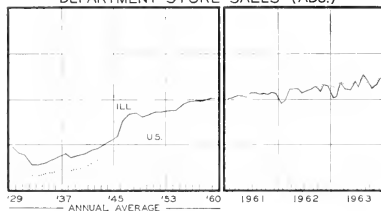
EMPLOYMENT - MANUFACTURING



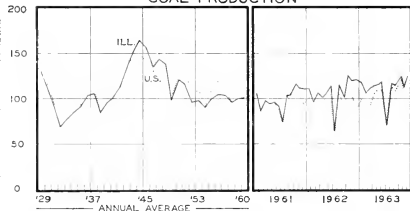
AVERAGE WEEKLY EARNINGS - MANUFACTURING



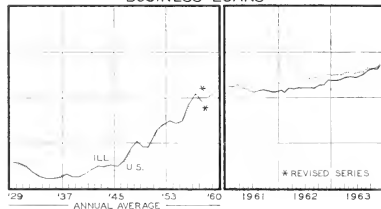
DEPARTMENT STORE SALES (ADJ.)



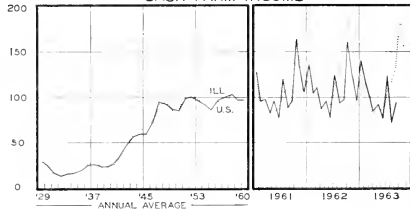
COAL PRODUCTION



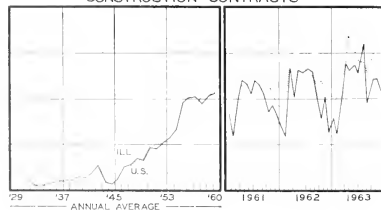
BUSINESS LOANS



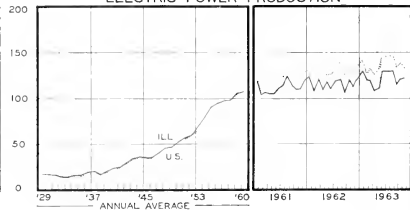
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

MARCH, 1964

NUMBER 3

HIGHLIGHTS OF BUSINESS IN FEBRUARY

The production of steel continued its upward movement in February and exceeded 2.3 million tons of ingots in the final week. By the end of February, steel output had been rising steadily for nine weeks; except for two short-lived interruptions, production has been increasing since mid-August. Automobile manufacturers assembled 675,000 units in February, 12 percent above the February, 1963, level, and only slightly below the record set for the month in 1955. The automotive industry surpassed its year-earlier figures in each of the first six months of the 1964 model year. Most other major production series showed only minor changes up or down. The Federal Reserve Board index of industrial production rose 0.4 of a percentage point to 127.6 (1957-59 = 100).

Capital Spending Plans Expanded

The latest report on anticipated business plant and equipment outlays indicates a 10 percent rise in 1964 over 1963 to a new record of \$43.2 billion. Railroads plan the largest relative increase, 25 percent; manufacturing firms expect their expenditures to be 13 percent greater, with near-average advances for both durables and non-durables. Other industries project increases in the 6 to 8 percent range.

The Department of Commerce-SEC report also raises, by about a half billion dollars in each case, the figures previously reported for the last quarter of 1963 and the first quarter of 1964. The estimate for the fourth quarter is now \$41.2 billion and for the current quarter \$41.25 billion. Projections for the second quarter have also been raised, to \$42.7 billion, and a further rise is expected in the second half. The modest advance in the present quarter is centered mainly in motor vehicles, nondurables, and nonrail transportation.

Tax Cut Passed

The tax cut proposed early in 1963 by President Kennedy was finally passed by the Congress and signed into law by President Johnson on February 26. Rates for individuals' incomes, which have ranged from 20 percent to 91 percent, will drop to a range of 16 to 77 percent this year and 14 to 70 percent in 1965. When the cut becomes fully effective next year, individual tax liabilities will average about 20 percent less. The corporation tax rate, formerly 52 percent, declines to 50 percent for 1964 and 48 percent in 1965 and thereafter. The total reduction in tax liabilities for individuals and corporations is

estimated at \$11.5 billion annually after the two-step cut becomes fully effective in 1965.

In addition to the lowered rates, other changes will be of particular advantage to low-income taxpayers, working mothers, the elderly, and those with sharply fluctuating incomes.

The new law has tightened the provisions relating to the treatment of dividend income, sick pay, casualty losses, the aggregation of oil and gas properties, personal holding companies, multiunit or chain corporations, and profits of real estate speculators. The law also seeks to limit or curtail abuses of stock-option plans and of provisions allowing deduction of charitable contributions and interest payments. Deduction of some state and local taxes is no longer permitted, but those on gasoline, general sales, property, and income are still deductible.

Payments Position Improves Further

The fourth quarter of 1963 witnessed a further slight improvement in our balance-of-payments position, according to the Department of Commerce. As measured by changes in monetary reserve assets, liquid liabilities to foreigners, and foreign holdings of nonmarketable medium-term convertible securities, the adverse balance amounted to a little more than \$200 million (seasonally adjusted). This was about four-fifths of the third-quarter deficit. Monetary reserve assets showed their first increase since 1957, rising by \$5 million. This small gain included, among other items, another small drop of \$38 million in our gold holdings and an advance of \$58 million in official holdings of convertible currencies.

Special government transactions again contributed to the over-all improvement. Advances on military orders by several foreign countries amounted to \$175 million in the final quarter. Without these advances, the seasonally adjusted deficit would have been \$375 million, compared with the third quarter's \$410 million.

Among the "regular" transactions, the trade balance rose by nearly \$300 million as the result of an increase of \$250 million in merchandise exports and a drop of \$40 million in imports. The trade balance was thus raised to an annual rate of \$5.7 billion, the highest in three years. These favorable changes in the merchandise accounts were largely offset by increases in bank loans to foreigners, especially short-term loans. New issues of foreign securities declined as a result of the proposed interest rate equalization tax.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Outlook for Higher Education

The Master Plan For Higher Education in Illinois, recently submitted by the staff of the Board of Higher Education, projects college enrollment in 1975 at 499,000, more than double the 243,000 enrolled in 1963. The heaviest impact of the trend to college study is just a few years ahead. It will bring a crisis for the State because nobody clearly perceives how teaching faculties and facilities can be increased fast enough to meet the need.

This report confirms the findings of a whole series of earlier studies of the problem, not only in Illinois, but in many other states, as well as some covering the national picture as a whole. Without an immediate mobilization of resources on a planned basis, there will be failures, varying in magnitude and duration, throughout the country.

The situation has a demographic background in the postwar baby boom. The college students of the 1950's were mostly born in the 1930's, but in the late 1940's the births were about half again as high, and it is the teenagers of that period who are now coming to the age of college entrance. By the mid-1950's, births numbered almost twice the low years of the 1930's and have continued to edge upward during the last decade. As a result, the number of college age youth will be increasing into the early 1980's, regardless of any future changes in the birth rate. In Illinois, the expected increase from 548,000 in 1963 to 847,000 in 1975 is 54 percent, just over half of the expected rate of increase in college enrollments.

Economic Pressures for Higher Education

The other half of the increase derives from rising rates of college attendance. In part this reflects the long-term trend toward higher living standards and advanced educational attainments. It has been stimulated, however, by economic pressures of the last decade, which restrict the opportunities of those who have not been able to acquire the skills demanded as industrial technology becomes increasingly sophisticated.

The appeal of higher income, of greater personal progress, has long been an inducement to college study. Not all college students are successful, of course, but on the average the life income of college graduates has been double that of other workers. That college degrees still open the door to opportunity is attested by the brief report on this year's college recruiting plans on page 16.

But now a sharper note has been added. To do things that matter in the new environment of economic progress, it is necessary to understand the whys and hows of getting things done efficiently. The advanced knowledge that makes this possible is not quickly gained. It requires a heavy investment of time and money. Nevertheless, increasing numbers have come to realize that such an investment is the only way to opportunity, and some who have already made and lost a career are again renewing their efforts because automation has rendered some of their skills inadequate.

The threat of unemployment has also been spurring the reluctant. Lack of training has come to mean not just an inferior job, but no job at all. Unemployment is focused sharply on the older workers and the young. Many of the former who have been displaced may never again find regular employment; compensation or pensions of one kind or another must take care of their needs. Yet it is the latter, still pliant and capable of acquiring essential skills, who suffer the highest rates of unemployment. The average rate of unemployment for teen-aged boys has recently been about three times as high as for men over 25, and for those who did not complete high school it was twice as high as for those who did. Newspapers, radio, and TV have put the point across. But to afford all who are capable of college work the opportunities they need, the doors to institutions of higher education must be opened.

A Growth Industry

Even from the narrowest economic point of view, education has been a progressive force in the postwar period. Its growth has contributed to the expansion of employment in an economy that has offered no net increase in total jobs in the production and distribution of goods. From 1960 to 1963, total employment increased by roughly 2 million, and practically all of this was in service occupations, divided about equally between private industry and state and local governments. Education appears in both parts of this expanding sector. Its impact so far has been mainly at elementary and secondary school levels, but it is now shifting to the colleges and universities. Higher education promises to be an outstanding growth industry of the next decade.

Efforts to direct the location of this growing industry have arisen everywhere. Youth in all communities need college places, and local business prizes the benefits of the facilities and staffs of new institutions. Local financing, however, is seldom adequate, and even state resources are limited in relation to the over-all magnitude of the task.

Part of the economic pressure that is creating the need derives from the economic situation as a whole, and since the welfare of the over-all economy is a national responsibility, there is justification for asking the federal government to assume part of the burden. Looked at from this point of view, higher education should be not only a growth industry but, given financing, a depression-proof industry. In a decline, the need for its scholastic and employment opportunities would become even more acute, and its value as a remedy for unemployment would be augmented. The problem of its financing would then more definitely be a federal responsibility.

The aid-to-education programs put before Congress to date have had something less than a warm reception, but it will be harder to deny them year by year. Perhaps President Johnson's war on poverty will give them new thrust; the complex but close tie between poverty and ignorance can hardly be overlooked.

VLB

HOBBY MODEL ASSEMBLY KITS

Model construction has had appeal since time immemorial. The industry provides the therapeutic effects of relaxation and diversion, and it also produces the satisfaction of accomplishment. The modeler enjoys something of the rewards felt by the original designer and builder, but without so many of the frustrations and difficulties. It is, however, the amount of difficulty which the modeler wishes to overcome that generally divides these hobbyists into various classes.

From the commercial point of view, the success of the hobby industry is closely correlated with the spreading of leisure time among the population, the standard of living, and the initiative of enough potential buyers to want to make things for themselves. While the first two necessary conditions are certainly being increasingly met, doubt has been expressed about the third. The recent experiences of that part of the hobby industry in Illinois which makes assembly kits for cars, planes, and ships suggest, however, that the presence and strength of the last condition should not be underrated. Furthermore, the trend in offering industrial arts activities up to higher levels in the schools may have additional effects in the future.

The increase in hobby activities is not limited to the United States, and our local industry is participating by making significant exports to a number of foreign countries. The best customers are Canada, Britain, Sweden, France, Italy, Germany, Australia, South Africa, Japan, and various South American countries.

Most of the customers are in the broad teen-aged group of 9 to 18 years of age, with the bulk at the lower end of the range, although it is estimated that adults make up perhaps 25 percent of the market.

The Firms in Illinois

The State has an unusual concentration of companies in the business of producing these assembly kits—Monogram, Lindberg, Hawk, Comet, Carl Goldberg, and Top Flite. They are all located in the Chicago area. The exceptional vitality of the industry is indicated in aggregate sales figures for these companies, which are now approximately five times larger than they were 10 years ago. Those firms making plastic model kits have enjoyed greater growth rates—with cars the best sellers at present—although there are signs that the popularity of balsa-wood flying model airplanes is increasing again.

The retail value of Illinois products is in the order of \$30 million. Some 650 persons are employed, mostly women. Some of the companies are able to buy much of their supplies within the State, although at the other extreme balsa wood must be imported from Ecuador.

At one time it was possible to start this type of firm with little capital and modest quarters. Hawk started a diminutive store in 1928 and Comet in 1929; Lindberg is another prewar firm of 1933. Top Flite began in 1945, Monogram started production in a residential basement in 1946, and Goldberg Models came into being in 1953. Today, however, extensive use of large automatic machinery is involved, such as the presses for polystyrene

plastic parts, and the set of steel dies and molds for a kit commonly cost \$25,000. Monogram is particularly large, and now has a plant with 120,000 square feet of floor space.

To design a kit and prepare the necessary dies may take from three months to a year. The project starts by working from drawings and photographs, by visiting libraries, examining full-scale originals, and then making prototypes from which production models are developed. The original manufacturers, government bureaus, Jane's reference books, and magazine articles may all be utilized. Balsa flying airplane kits present rather different problems from the static models, for the ultimate measure of success for the buyer is whether the plane is airworthy. Inasmuch as a dozen kits may be introduced each year, a significant research and development staff is required.

The Products

Monogram, Lindberg, and Hawk produce plastic assembly kits for cars, planes, ships, and other specialty items. Between the products of these three companies a person could build about 180 plastic non-flying airplanes, 80 automobiles, 60 ships and boats, 35 rockets and space vehicles, and a half-dozen military vehicles. Even this does not end the possibilities, for customizing kits permit many additional variations.

The trend is also toward greater sophistication of individual models. Many parts have chrome-plated or aluminized finishes. Automobile models may have electric drives operating through a differential, and possibly also workable steering. Aircraft are obtainable with retracting undercarriages, moving control surfaces, folding wings, and opening bomb-bay doors. Electric motors in some planes spin propellers, operate the undercarriage, and release bombs. There is even a ground-effect vehicle which moves on a cushion of air. Battleship models intended for water operation may include electric motors to elevate guns and rotate turrets and also to change helm at the same time as they drive the propeller. A highly successful innovation by one of these companies is a series of weird figures, the appeal of which is apparently irresistible to many although it is somewhat elusive to others.

In flying aircraft, Comet, Top Flite, Carl Goldberg, Lindberg, and Monogram together offer about 130 models, the majority by the first three firms. These companies generally follow prototypes, although Carl Goldberg specializes in its own original designs. Top Flite started with propellers and is today the largest manufacturer of propellers in the United States. Comet has a program intended to introduce this type of model building more strongly into therapeutic, school, and club activities.

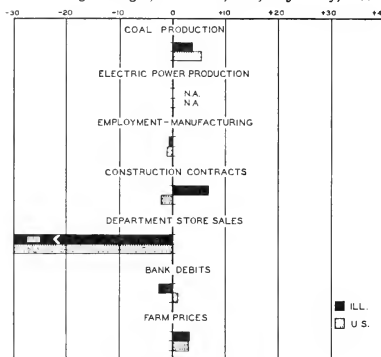
Some see the future possibilities for this area of the hobby industry limited only by the ability of firms to introduce new features; others place more emphasis upon stable growth of the market. Whatever the future, however, the model kit of today is still one place where the spirit of workmanship can find hours of real enjoyment for a modest 50 cents or a dollar.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, December, 1963, to January, 1964



* Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Jan. 1964 (1957-59 = 100)	Percentage change from Dec. 1963	Jan. 1963
Employment—manufacturing ¹	97.8	- 0.6	- 0.4
Weekly earnings—manufacturing ¹	121.3 ^a	- 0.1	+ 4.5
Consumer prices in Chicago ²	105.8	- 0.3	+ 0.7
Life insurance sales (ordinary) ³	126.5	-20.8	+21.3
Dept. store sales in Chicago ⁴	114.0 ^b	- 8.1	+12.9
Farm prices ⁵	95.0	+ 3.3	- 4.0
Bank debits ⁶	170.4	- 2.5	+10.8
Construction contracts ⁷	117.0	+ 6.9	+48.5
Electric power ⁸	137.2	- 0.1	+ 5.0
Coal production ⁹	129.8	+ 3.8	+ 9.7
Petroleum production ¹⁰	98.2	- 2.1	+ 2.0

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Ancy. Mang. Ass'n.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Jan. 1964	Percentage change from Dec. 1963	Jan. 1963
Personal income ¹	478.7 ^a	+ 0.6	+ 5.4
Manufacturing ¹	438.0 ^a	+ 1.4	+10.3
Sales.....	59.9 ^{a, b}	- 0.3	+ 4.4
New construction activity ⁴	21.8	-15.7	+ 9.3
Private residential.....	17.8	- 8.6	+11.8
Private nonresidential.....	15.6	-14.1	+ 8.2
Foreign trade ¹	25.9 ^a	+ 2.4	+13.2
Merchandise exports.....	18.4 ^a	+ 7.0	+12.7
Merchandise imports.....	7.5 ^a	- 7.4	+14.4
Excess of exports.....	69.2 ^b	- 1.0	+10.8
Consumer credit outstanding ²	53.6 ^b	- 0.3	+11.8
Instalment credit.....	42.5 ^b	- 6.1	+ 7.6
Business loans ²	41.5 ^c	-18.1	- 6.3
Cash farm income ³			
Indexes (1957-59 = 100)			
Industrial production ²	128 ^a	0.0	+ 6.7
Combined index.....	127 ^a	+ 0.2	+ 7.1
Durable manufactures.....	128 ^a	- 0.2	+ 6.4
Nondurable manufactures.....	108 ^a	+ 0.5	+ 4.6
Manufacturing employment ⁴	101 ^a	+ 0.1	+ 1.8
Production workers.....	101	- 2.0	0.0
Factory worker earnings ⁴	118	+ 0.4	+ 3.7
Average hourly earnings.....	119	- 1.6	+ 3.7
Average weekly earnings.....	116	- 2.0	+20.4
Construction contracts ⁵	121 ^a	- 4.0	+ 7.1
Department store sales ⁶	108	+ 0.1	+ 1.6
Consumer price index ⁴			
Wholesale prices ⁴	101	+ 0.7	+ 0.5
All commodities.....	96	+ 3.2	- 2.2
Farm products.....	102	+ 2.0	+ 1.6
Food.....	101	+ 0.1	+ 0.6
Other.....			
Farm prices ³	101	+ 3.0	0.0
Received by farmers.....	107	+ 0.9	+ 0.9
Paid by farmers.....	78 ^d	+ 2.6	- 1.3
Parity ratio.....			

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b End of month. ^c Data for December, 1963, compared with November, 1963, and December, 1962. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1964					1963
	Feb. 29	Feb. 22	Feb. 15	Feb. 8	Feb. 1	March 2
Production:						
Bituminous coal (daily avg.).....	1,421	1,395	1,411	1,435	1,511	1,400
Electric power by utilities.....	18,740	18,661	18,727	18,542	18,659	17,505
Motor vehicles (Wards).....	206	203	196	200	195	179
Petroleum (daily avg.).....	7,655	7,706	7,653	7,675	7,661	7,417
Steel.....	125.2	123.4	122.2	119.2	119.0	114.3
Freight carloadings.....	529	516	528	529	543	533
Retail sales.....	4,572	4,320	4,331	4,365	4,410	4,410
Commodity prices, wholesale:						
All commodities.....	100.4	100.4	100.5	100.5	100.7	100.2 ^a
Other than farm products and foods.....	101.1	101.1	101.1	101.2	101.2	100.6 ^a
22 commodities.....	94.8	94.2	94.4	94.5	95.1	93.2
Finance:						
Business loans.....	37,590	37,619	37,368	37,314	37,195	34,564
Failures, industrial and commercial.....	337	316	294	288	307	311

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for February, 1963.

RECENT ECONOMIC CHANGES

Revised Consumer Price Index

The Bureau of Labor Statistics has just issued an improved consumer price index. The new index includes a modernized list of consumer goods and services which reflects the urban spending patterns for wage-earner and clerical consumers in the 1960's. A significant change in the index is the extension of coverage, now limited to families of two or more persons, to include single persons, in order to make it more representative of the total urban and clerical-worker population. Prices are obtained monthly from an up-to-date sample of cities, retail stores, and service establishments.

In the new index, food has considerably less importance than in the old index, whereas weights for housing and transportation are relatively larger. These changes reflect shifts in consumer spending habits during the last two decades. Preliminary estimates indicate that the CPI climbed 0.1 percent in January to a new high of 107.7 (1957-59 = 100).

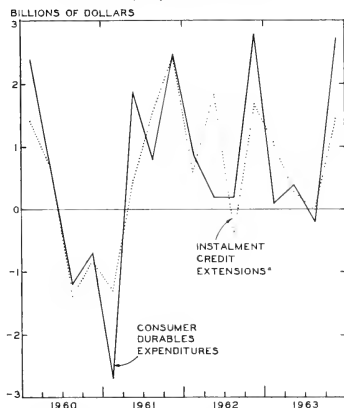
Credit Expansion

During 1963 the amount of consumer credit outstanding rose \$6.7 billion to just under \$70 billion. Since the low of the last recession in early 1961, consumer debt has risen nearly 30 percent. Total consumer expenditures during this period have increased only 15 percent to \$380 billion.

Throughout this period, as earlier, there has been a close relationship between the increase in consumer debt and the advance in durable goods sales, since such sales are based mainly on the use of new credit (see chart). The seasonally adjusted annual rate of extensions of new

CHANGES IN INSTALMENT CREDIT AND CONSUMER DURABLES PURCHASES

(Seasonally adjusted annual rates)



* Auto paper and other consumer goods paper.

Sources: Federal Reserve Board and U.S. Department of Commerce.

instalment credit for autos and other consumer goods has risen \$10.8 billion and the annual rate of consumer durable sales advanced \$12.3 billion from the first quarter of 1961 to the end of 1963.

Even with the length of credit terms being expanded, a lowering of down payment requirements, and longer payment periods, there has been no noticeable rise in loan defaults. By the end of the year the delinquency rate on instalment loans was no greater than that recorded at the end of 1962 or 1961 and was lower than that recorded in late 1960 and early 1961.

Plant and Equipment Outlays

During 1963 capital expenditures by business firms totaled \$39 billion, 5 percent above 1962, according to the Department of Commerce and the Securities and Exchange Commission. Plant and equipment purchases by manufacturing firms reached \$15.6 billion in 1963, 6.4 percent above 1962. Capital outlays by durable goods manufacturers, which rose 11 percent during the year to a total of \$7.8 billion, led the way. Producers of iron and steel accounted for 41 percent of this increase as their expenditures rose \$300 million during the year. Outlays by nondurable goods producers also reached \$7.8 billion last year, 2 percent more than in 1962.

Among nonmanufacturing industries the railroads reported expenditures of \$1.1 billion in 1963, 27 percent more than in the previous year; public utilities and commercial establishments showed more moderate gains with 3 and 5 percent increases respectively.

Retail Sales in 1963

Total 1963 sales of all retail stores in the United States amounted to \$246.4 billion, \$11 billion more than in 1962. Sales of nondurable goods stores increased 4 percent over 1962 and sales of durable goods stores were 7 percent higher.

All the major kinds of retail establishments showed gains, with the automotive group and the furniture and appliance group recording the largest increases, 7 percent, over the 1962 level. The general merchandise group rose 6 percent; eating and drinking places, 4 percent; and the food group and the lumber, building, hardware, and farm equipment groups were 3 percent higher. Within the food group, fruit stores and vegetable markets showed the largest advance, with a gain of 10 percent, whereas candy, nut, and confectionery stores had a 5 percent decline.

Dividend Payments

Dividend payments of corporations issuing public reports during 1963 amounted to \$16.3 billion, a 7.3 percent increase over the previous year, according to the United States Department of Commerce. Advances occurred in both the manufacturing and nonmanufacturing areas, with 11 of the 12 manufacturing groups reporting increases over 1962. The largest percentage gain in manufacturing was recorded by the automobile group, with a 30 percent increase to \$1.4 billion in 1963; the only decline was recorded by the iron and steel group, whose dividend payments fell 8.5 percent from the 1962 total of \$671 million.

In the nonmanufacturing sector, the electric and gas utilities and the railroads were the pacesetters, with the former showing a 7.2 percent increment to a total of \$1.9 billion and the latter a 6.9 percent gain to \$377 million.

POPULATION, POLITICS, AND REDISTRICTING

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Institute of Government and Public Affairs

Population mobility, political tactics to increase or maintain party strength in legislatures, and the desire of legislators to ensure re-election or otherwise enhance their political careers are the fundamental ingredients of the legislative redistricting issue. The problem is not peculiar to Illinois, as the May, 1962, United States Supreme Court decision, *Baker v. Carr*, and the subsequent chain of decisions across the nation attest. It has, however, produced greater consequences in Illinois than in any other state.

In redistricting state legislatures, especially in two-party states such as Illinois, the stakes are high: party control of one or both chambers of the legislature and the careers of incumbent legislators. Because of Chicago-Downstate antagonism and divided government—a situation wherein one or both of the legislative chambers is controlled by one party and the executive by the other party—Illinois failed to redistrict the House of Representatives in 1963.

As an immediate result of this political impasse, Illinois voters will be faced with an unprecedented at-large election of the 177 members of the Illinois House of Representatives on November 3, 1964. The usual biennial election of 3 members from each district will not take place. The entire State will be considered one representative district, and each voter, instead of voting for 1, 2, or 3 candidates, with cumulative voting, will have a maximum of 177 candidates for which he may cast one vote each, and any votes not cast will simply be lost.

An at-large election of a state's lower house has never occurred throughout the history of the nation. The Illinois election dilemma resulted when the Governor and the General Assembly failed to agree during the 1963 regular session of the legislature. The Governor then appointed a 10 member bipartisan commission to redistrict the House. Unfortunately, the commission also failed. Although redistricting has never before reached the consequential proportions it has presently attained, it has been a problem in Illinois since the turn of the century.

Development of the Problem

Prior to 1901, the Illinois House and Senate were redistricted 14 times—more than once every 10 years since 1818. Illinois did not become the victim of malapportionment, the disparity which may exist between a state's constitutional provisions and the prevailing apportionment in that state, until after 1901. The malapportionment developed because Illinois senatorial districts, which were the districts for both the House and Senate, were undisturbed between 1901 and 1955.

Until 1954, the basis of representation for both the House and the Senate was population. The tradition of popular representation on the "one man-one vote" basis was deeply imbedded in Illinois history, and it is in this tradition that the redistricting problem has its roots.

Besides providing for a popularly represented bicameral legislature, the 1870 Illinois constitution provided for mandatory decennial redistricting of the senatorial districts. The apportionment formula required the districts to be as nearly equal in population as possible, or as near to the representative ratio attained by dividing the population of the State by the number of senatorial districts (51) as possible. This principle was closely adhered to

TABLE 1. POPULATION SHIFTS, 1870-1950

Year	Downstate population (Thousands)	Percent of total	Cook County population (Thousands)	Percent of total
1870.....	2,190	86	350	14
1880.....	2,470	80	608	20
1890.....	2,634	69	1,192	31
1900.....	2,983	62	1,839	38
1910.....	3,233	60	2,405	40
1920.....	3,432	53	3,053	47
1930.....	3,649	48	3,982	52
1940.....	3,834	49	4,063	51
1950.....	4,203	48	4,509	52

from 1870 to 1901, and the districts for Cook County were in accord with the constitutional apportionment.

This, however, was prior to the marked shift in population from Downstate Illinois to Cook County, as shown in Table 1, which reflected the rapid industrial development of Chicago. The consequences of this population shift are shown in Table 2. Note the increasing malapportionment from 1910 through 1950 in Cook County and in the remaining 101 counties of the State, or Downstate.

Chicago-Downstate Conflict

The population shift does not, in itself, account for the 54-year silent gerrymander—the gross representational disparities caused by failure to redistrict decennially. Rather, the growing concentration of people and wealth in a small area gave rise to an adverse attitude on the part of the previously dominant rural population. This attitude helped produce a Chicago-Downstate conflict which was, and is at present, paralleled by a political conflict reflecting Chicago-Downstate loyalties. The "urban-rural" conflict, although not unique to Illinois politics, is more deeply rooted here than in the politics of any other state. In Illinois, it consistently underlies the usual ingredients of redistricting: population mobility, political party survival, and the legislative interest.

This sectional antagonism found early expression in the 1920 Constitutional Convention debates. The Chicago-Downstate encounter in the convention resulted in a compromise measure by which representation in the House was to be based on population, and representation in the Senate was to be based primarily on area, but it was rejected in the 1922 general election. Note, however, that this early proposal for basing the House on popula-

TABLE 2. MALAPPORTIONMENT, 1910-50

	Number of districts				
	1910	1920	1930	1940	1950
Cook County					
Constitutional apportionment.....	21	24	33	26	29
Actual apportionment....	19	19	19	19	19
Downstate					
Constitutional apportionment.....	30	27	18	25	22
Actual apportionment....	32	32	32	32	32

tion and the Senate primarily on area anticipated the 1954 reapportionment amendment. The idea was as acceptable to the Republicans in 1954 as in 1922 because it did not threaten to upset their control of the legislature.

Although the controlling Republicans apparently intended to maintain the silent gerrymander, there were other factors contributing to the malapportionment of the legislature. The desire for change was by no means unanimous in Chicago. For example, the professional politicians and the business interests had worked out a mutually satisfactory *modus vivendi* which alteration would modify. Additionally, the Chicago "drys" feared redistricting would bring about control by the "wets." Also, of course, the legislature itself was reluctant to redistrict since it would mean some sitting members would have to surrender their seats.

Since the legislature would not redistrict itself, some felt that adjudication would bring about a redistricted State. But a series of court cases in the 1920's and 1930's failed to effect relief from the malapportionment.

Growth of the Country Towns

By mid-century, a remedy was made possible by the population growth of the strongly Republican Country Towns, which include all of Cook County outside of the 1954 Chicago city limits. As shown in Table 3, the Country Towns gained relatively faster than Chicago and Downstate from 1940 to 1960. Chicago experienced its first absolute decrease in the 1950's, and a majority of the Downstate counties were also declining. By 1950 the rapidly growing Country Towns were underrepresented and it seemed to the Republicans' advantage to redistrict.

Republican Governor Stratton felt, no doubt, that by redistricting he could gain political advantage, both by sponsoring a popular issue and by strengthening his party in the state legislature. Chicago Democratic Mayor Daley supported Governor Stratton. Under Governor Stratton's strong leadership the redistricting issue was finally brought to a head in the 68th (1953) General Assembly. Since 54 years of silent gerrymandering had made it clear that redistricting under the original constitutional provision was impossible, a reapportionment amendment was offered to the electorate by the legislature and was adopted in the 1954 general election.

The amendment (a) changed the basis of representation for the Senate from population to area, (b) increased the number of districts in the House to 59 and in the Senate to 58, (c) provided that the population of House districts could not be less than four-fifths of the representative ratio, (d) made decennial redistricting of the House mandatory, (e) "insured" mandatory redistricting of the House by providing that in the event of legislative failure to redistrict, a 10 member bipartisan commission appointed by the governor would redistrict, and, if the commission failed, an at-large election for the legislature would result, and (f) divided the state into three areas, Chicago, the Country Towns, and Downstate, for the purposes of redistricting the House every 10 years, and the Senate in 1955. House districts must be drawn within the boundaries of the three areas; no "overlapping" is allowed. Each area is apportioned House districts commensurate with its proportion of the state's population.

Decennial redistricting and the four-fifths lower limit population requirement were carried over from the original constitutional provision. Otherwise, the amendment is basically a reflection of the Chicago-Downstate conflict. Insurance of Republican control of the Senate is the effect of basing its representation on area. Republican

TABLE 3. RELATIVE POPULATION CHANGES
(Thousands)

Year	Chicago	Country towns	Down-state	State total
1940.....	3,397	667	3,834	7,897
1950.....	3,621	888	4,203	8,712
1960.....	3,546	1,584	4,951	10,081

Senate margins have been as follows: 70th, 30-28; 71st, 30-28; 72nd, 30-28; and the 73rd, 35-23. (The basis of representation in the Illinois Senate has been challenged in *Germano v. Kerner*, a case presently before the federal courts.) The tripartite division reflects both the desire to check the extension of the Chicago Democratic organization into the suburban area and the recognition of three distinct political interest areas within the State. Both the urban and suburban areas are given assurance of proper representation in the House.

The amendment specified that the House and Senate were to be redistricted in 1955. The House was to be redistricted in 1963 and each 10 years thereafter. Therefore, the 69th General Assembly in 1955 redistricted both the Senate and the House. At that time, Chicago was allotted 23 districts, the Country Towns were allotted 7, and 29 districts went to the Downstate area.

Proposals Rejected in 1963

In 1953 and 1955, the governor was Republican and the legislature was controlled by the Republicans. During these years of unified government, both the House and Senate were redistricted. In 1963, however, because Illinois had a Democratic governor and a Republican-controlled legislature, or a divided government, and because the population had shifted considerably since 1950 in favor of the Republicans, House redistricting was rendered nearly impossible.

According to the apportionment formula, the apparent allocation of districts for the three areas was as follows: Chicago, 21; Country Towns, 9; Downstate, 29. Thus, it appeared, Chicago was scheduled to lose two districts and the Country Towns were scheduled to gain two districts. Although Downstate was not to experience a loss of total number of districts, the population in Downstate Illinois had shifted substantially, which called for considerable change of district lines within the Downstate area also.

The situation in Chicago is shown on the map on page 8. The city is strongly Democratic (districts marked "D"). A strong Democratic district has returned 2 Democrats and 1 Republican to the House in each election since the 1955 redistricting. The reverse is true for strong Republican districts (marked "R"). The lightly shaded districts (11, 12, 17, 20, 21, 28, and 29) are all below the four-fifths requirement, and the loss of two districts will presumably be focused on this central area.

The Country Towns, scheduled to gain 2 districts even though Districts 3 and 4 are below the four-fifths requirement, are sources of real Republican gains. All are strongly Republican except District 5 and it has strong GOP leanings. District 6 has grown enough to become 2 districts.

A general south-to-north population shift is apparent in the map of Illinois, which shows that 8 Downstate districts are below the four-fifths requirement. Three of these districts are Republican (40, 45, and 51) and 1 is Democratic (57); the other 4 are swing districts. The

only other Democratic district is 52, and the only other swing districts Downstate are 39, 46, 47, 53, and 54. Note also that Districts 31 and 36, Republican strongholds, both qualify for two districts. At the very least, the Republicans could gain 4 safe seats in these two districts, while at most losing 2 and perhaps none at all Downstate.

The Republicans in the House, who controlled by a 90-87 margin, passed a partisan bill which the Republican Senate approved. The bill would have provided nearly 100 safe Republican seats in the House if adopted. But owing to the intra-party struggle, highlighted by individual legislators attempting to secure their political futures, the bill contained questionable population disparities (as great as 112 percent) among the new districts. Thus, Governor Kerner was offered an opportunity to exercise the veto. If the Republicans had negotiated a bipartisan bill, they might have been ensured both gubernatorial approval and a House Republican majority until 1973.

The Republican decision to pass a partisan bill through the legislature allowed the Democrats to employ the veto, the only weapon at their disposal in endeavoring to salvage some party strength in the House. Since the legislature had adjourned, a veto meant that a redistricting commission would be appointed. A commission of 5 Republicans and 5 Democrats offered more favorable odds to the Democrats than they had in the legislature.

No Solution in Sight

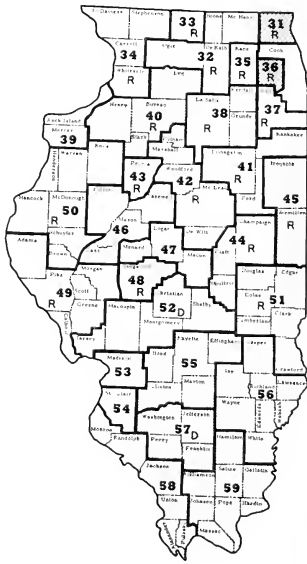
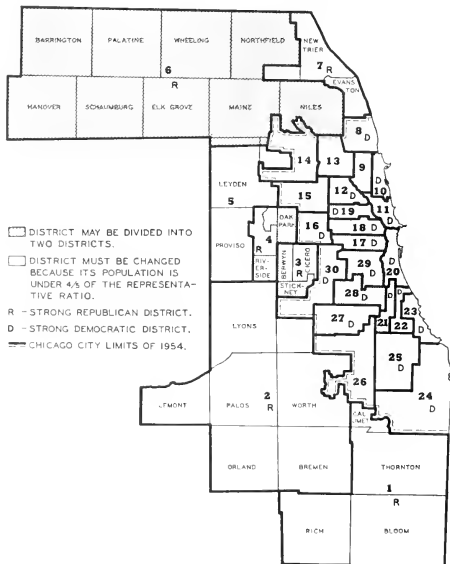
Aside from the professional politicians, the supporters of the 1954 reapportionment amendment generally viewed the measure as a guarantee for redistricting. The threat

of a commission to redistrict the House in case the legislature's plan were rejected, and the threat of an at-large election in the event of a commission's failure to redistrict the House, were generally considered sufficient to effect decennial redistricting by the legislature. But the 1963 experience seems to indicate that the amendment does not guarantee that redistricting will occur decennially. What the 1963 experience does seem to indicate is the possibility of relatively frequent at-large elections until a constitutional redistricting is effected.

The chances of a constitutional redistricting in 1965 will be enhanced if the electorate returns a unified government. If, however, a divided government is returned, the chances of a redistricted House in 1965 will be seriously hampered. Since Republican dominance in the Senate seems assured, a unified government can only be a Republican government. Therefore, given the relatively high degree of party competition in Illinois, the tendency to have divided government is strong.

Perhaps it can be said that as long as the House is based on population and the Senate primarily on area, and the population continues to shift, Illinois will consistently experience acute redistricting difficulties. It appears that if the chances of unified government were increased, the chances of redistricting would also be increased. At the present time this would involve changing the basis of representation in the Senate to population. But as long as the Chicago-Downstate conflict underlies the redistricting issue in Illinois, it is mere daydreaming to anticipate any change in the Senate's basis of representation short of federal adjudication.

REPRESENTATIVE DISTRICTS, COOK COUNTY AND ILLINOIS



BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Congressional District Data Book

The United States Department of Commerce has just issued a new edition of the *Congressional District Data Book*. This 603 page book lists the latest political, economic, and social information for every congressional district. For each district the book includes over 200 items concerning population, housing, births, deaths, marriages, bank deposits, veterans, agriculture, business, and industry. All of the districts are grouped by states and the statistics are accompanied by maps showing the districts, counties, and important cities and towns. This book may be obtained for \$4.75 from the United States Government Printing Office, Washington, D. C. 20402.

College Recruitment

The National Industrial Conference Board has just released the preliminary results of studies of the current employment outlook for 1964 graduates. Findings from the Endicott, Midwest College Placement Association, and College Placement Council surveys indicate that both the demand for graduates and the salaries to be offered them will reach new highs.

The major problem facing recruiters, according to these surveys, is the increase in the number of students who are continuing their education in graduate school. An ever increasing number of college graduates who rank high in their graduating classes are going on for further education. With many of the more able students entering graduate schools, companies are recruiting more among holders of graduate degrees. One survey reports that company quotas for persons holding masters' degrees are up 32 percent this year over 1963.

All the surveys indicate that the average salaries for most types of occupations will increase this year over

1963, particularly in technical areas. The average beginning monthly salary for a person with an engineering degree will be about \$610. For accounting the starting salary is expected to be \$530, and for sales and general business administration graduates about \$500. Other fields will vary according to the demands placed on the particular firm for new persons, but the average salary for technically trained individuals will probably be between \$590 and \$620 and for nontechnically trained persons about \$100 a month less. Persons with masters' degrees are being offered between \$80 and \$90 more per month.

Mortgage Debt Increases

Mortgage debt outstanding on one-to-four-family homes reached \$185 billion by the end of 1963, a \$45 billion increase since the end of 1960. This form of debt is now equivalent to 45 percent of disposable personal income. Gross new mortgage debt financing totaled \$26.4 billion in 1962. A growing amount of mortgage money is being used to buy existing homes; this share has risen from 29 percent of total new mortgage debt in 1956 to 39 percent in 1962.

In addition to the increase in borrowing on existing homes, the value of mortgages contracted for the purchase of new homes has continued to rise since 1959 despite a decline in the value of new construction of one-to-four-family homes. This narrowing gap between the value of new residential construction and the issuance of mortgages on new housing units seems to reflect a decrease in down payments and an upward trend in land prices.

Along with this rise in mortgage activity in the last three years has gone a rapid rise in personal saving. Because of the increased volume of saving, mortgage interest rates have tended to decline. The credit expansion induced by the rise in sales of existing homes utilizes the savings, but some of the funds produced do not go back into housing but may be used for the purchase of automobiles, major appliances, and other goods and services.

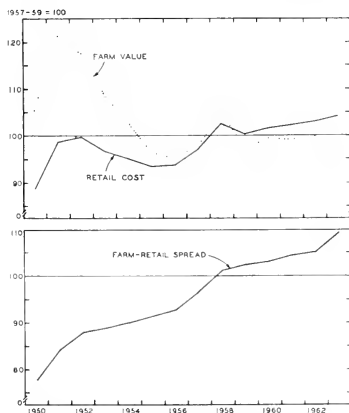
Cost of Food

The difference between the retail cost for farm-originated food products and their farm value was 4 percent greater in 1963 than in 1962. This increase was the largest since 1958 and was twice the average annual increase in the last decade. Much of the increase came when prices farmers received for beef decreased 6.5 cents a pound while retail prices fell only 1.4 cents. In addition prices received by growers of oranges lagged behind rising retail prices of processed orange products.

Part of the reason for this increasing difference between farm value and retail cost since 1958 (see chart) is the rising cost of labor and of fixed costs such as state and local taxes. An example of the influence of labor costs can be seen in the average retail price of bread, which was at an all-time high of 21.6 cents in 1963, 40 percent higher than the 1957-59 average. The output per man-hour by production workers in the baking industry rose less than their hourly earnings and output per man-hour by nonproduction workers declined.

Farmers received only 37 cents of each dollar consumers spent on farm-originated food products in retail food stores last year, 1 cent less than in 1962; this was the smallest share farmers have received since 1934.

FARM-RETAIL SPREAD IN FOOD PRICES



Source: U.S. Department of Agriculture.

LOCAL ILLINOIS DEVELOPMENTS

Bank Debits Rise in 1963

The total bank debits of 15 major metropolitan areas in Illinois rose to \$298 billion in 1963, an increase of 9 percent over the total of \$274 billion for 1962 (see chart). Monthly totals, all of which exceeded those for corresponding months of the previous year, ranged from \$21.2 billion in February to \$29.1 billion in December.

Champaign-Urbana and Aurora, with increases of 11 and 10 percent respectively, showed the largest gains. Increases of more than 6 percent were shown by Danville, Elgin, Springfield, Alton, Quincy, Moline-East Moline-Rock Island, and Peoria. Bank debits in the other cities rose by smaller percentages, except in East St. Louis, where they declined by 1.7 percent.

1964 Highway Program

The 1964 Illinois Primary Highway Improvement Program announced recently by Governor Otto Kerner is expected to be one of the largest programs of its kind in the history of the State. An estimated \$295 million is to be spent. Of this, \$203 million is designated for interstate and \$92 million for non-interstate highway projects.

The interstate highway program comprises construction and improvements for 468 miles of highway, including 93 miles of new construction, 92 grade separations, and 11 new bridges. Right-of-way is to be acquired for 334 new interstate highway miles. Emphasis is being given to the completion of sections within the system, including Interstate 70 in the East St. Louis and Vandalia areas; Interstate 74 in the Bloomington and Champaign areas; Interstate 80 at Rapids City in Rock Island County; and the completion of the Southwest Expressway (Interstate 55) in the Chicago metropolitan area.

With respect to the non-interstate highway program, emphasis is being put on modernization of the existing

system. Improvements, as listed for 462 highway miles, include 123 miles of new construction, 69 new bridges, and 37 grade separations. Right-of-way is to be acquired for 678 miles of new non-interstate highways.

Automobile Insurance

According to Thomas F. Reynolds, the manager of the Illinois Insurance Information Service, estimated over-all automobile insurance payments as shown for 24 principal Illinois-based companies reached a new record level of \$250 million in 1963. This figure shows an increase of 4 percent over 1962 payments of \$240 million. The affiliated companies insure three-quarters of the 4 million privately registered cars in the State. In 1963, various upward rate adjustments were far outweighed by a higher frequency of highway deaths, accidents, and injuries and by consequent increases in claims and incurred physical damage losses.

Growth in Savings and Loan Activity

The Illinois Savings and Loan League reports that the state's 477 insured savings and loan associations have achieved considerable growth. The combined assets of federal and state associations totaled \$9.6 billion, at the end of 1963, an increase of more than 10 percent over the year-before figure.

Despite a large decline that took place in July, a year-end advance of \$783 million was shown for net new savings. This gain exceeded that shown for 1962 by 4.5 percent.

An increase of nearly 8 percent was shown for total reserves and surplus, which reached \$586 million. Here, however, higher taxes caused a slight decline in the ratio of reserves and surplus to savings capital.

Mortgage lending, at a volume of \$1.8 billion, showed a gain of about 4 percent over the previous high level set in 1962. Loans for new construction declined by nearly 4 percent in 1963, but this loss was more than compensated for by increases in home purchase and other loan categories.

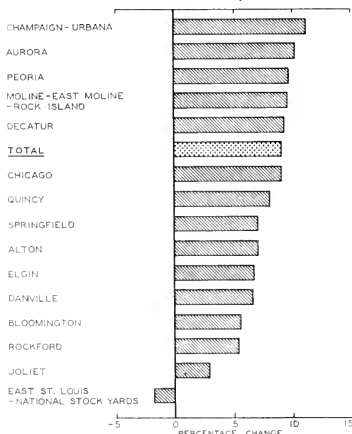
Finally, liquid assets rose by about 10 percent to \$907 million, showing a ratio of 11.3 percent to savings capital.

Area Resource Development in Illinois

Rural Area Development committees, sponsored by the Area Resource Administration on a nationwide basis, are organized in 37 counties of Illinois. Federal assistance funds are directed to areas which have unemployment rates of 6 percent or more and where unemployment conditions are persistent. Over 6,000 jobs have been added to the Illinois economy as a result of federal aid received during the past two years.

Specific undertakings for which both federal and local sources of financing are sought are technical assistance projects; the development of new industries and the expansion of existing industries; improvement of the agricultural economy, as through the development of watershed projects; development of public facilities; and job training and retraining programs. At present, numerous projects have been established in all of the organized counties. In addition, over-all economic development plans have been prepared and approved for federal assistance in 6 counties. Similar plans are being prepared for the remaining organized counties. To date, federal investment in Illinois projects has totaled \$3.8 million.

CHANGES IN BANK DEBITS, 1962 TO 1963



Source: Federal Reserve Board.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1964

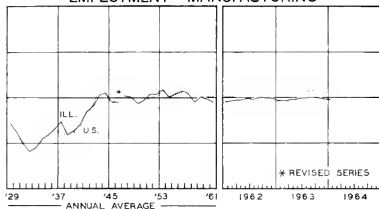
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kw h)	Estimated Retail Sales ³ (000,000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$98,260 ^a	1,519 0 ^a			\$28,333 ^a	\$20,116 ^a
Percentage change from	(Dec., 1963...	+157.7	+3.6		-57	-2.5	-15.5
	Jan., 1963...	+266.3	+3.7		+12	+10.8	+2.7
NORTHERN ILLINOIS							
Chicago							
Chicago		\$90,069	1,114 9			\$26,477	\$17,011
Percentage change from	(Dec., 1963...	+277.7	+3.6		-56	-2.8	-14.4
	Jan., 1963...	+439.9	+3.1		+13	+11.1	+3.2
Aurora							
Aurora		\$ 777	n.a.			\$ 105	\$ 223
Percentage change from	(Dec., 1963...	+76.2			n.a.	+2.9	-13.7
	Jan., 1963...	+23.7				+15.4	+1.4
Elgin							
Elgin		\$ 867	n.a.			\$ 63	\$ 223
Percentage change from	(Dec., 1963...	+129.4			n.a.	-0.0	-1.3
	Jan., 1963...	+755.8				-1.6	+17.4
Joliet							
Joliet		\$ 489	n.a.			\$ 111	\$ 155
Percentage change from	(Dec., 1963...	-89.0			-58	+8.8	-27.6
	Jan., 1963...	-90.7			+20	+8.8	-1.3
Kankakee							
Kankakee		\$ 207	n.a.			n.a.	\$ 76
Percentage change from	(Dec., 1963...	+44.8			n.a.		-26.9
	Jan., 1963...	+475.0					-11.6
Rock Island-Moline							
Rock Island-Moline		\$ 349	n.a.			\$ 150 ^b	\$ 270
Percentage change from	(Dec., 1963...	-49.2			n.a.	+2.0	-8.5
	Jan., 1963...	+27.4				+10.3	+20.0
Rockford							
Rockford		\$ 1,657	73 1 ^c			\$ 241	\$ 321
Percentage change from	(Dec., 1963...	+17.9	+14.0		-63 ^c	+1.3	-28.5
	Jan., 1963...	+38.1	+6.6		+9 ^c	+9.5	-0.3
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 360	14.6			\$ 108	\$ 153
Percentage change from	(Dec., 1963...	+29.5	+0.0		n.a.	+0.0	-18.6
	Jan., 1963...	+429.4	-8.2			-1.8	-3.8
Champaign-Urbana							
Champaign-Urbana		\$ 188	23.9			\$ 112	\$ 177
Percentage change from	(Dec., 1963...	-67.6	+4.8		n.a.	+3.7	-25.3
	Jan., 1963...	+487.5	+16.0			+1.8	-2.7
Danville							
Danville		\$ 229	21.3			\$ 62	\$ 98
Percentage change from	(Dec., 1963...	-11.6	-7.8		-65	+5.1	-24.0
	Jan., 1963...	-69.5	-2.7		0	+1.6	-11.7
Decatur							
Decatur		\$ 467	44.9			\$ 147	\$ 170
Percentage change from	(Dec., 1963...	+20.7	-1.3		-63	+5.0	-21.7
	Jan., 1963...	+130.0	+5.4		+13	+2.1	-4.5
Galesburg							
Galesburg		\$ 25	13.7			n.a.	\$ 61
Percentage change from	(Dec., 1963...	-96.4	-0.7		n.a.		-27.4
	Jan., 1963...	+92.3	+18.1				-10.3
Peoria							
Peoria		\$ 628	77.7 ^c			\$ 307	\$ 355
Percentage change from	(Dec., 1963...	-60.3	+2.6		-60	-3.5	-37.6
	Jan., 1963...	-45.3	+9.6		+9	+8.1	-1.9
Quincy							
Quincy		\$ 170	18.1			\$ 65	\$ 89
Percentage change from	(Dec., 1963...	-79.8	+7.1		n.a.	-3.0	-34.1
	Jan., 1963...	+261.7	+7.7			+0.0	-19.1
Springfield							
Springfield		\$ 1,303	52.0			\$ 183	\$ 511
Percentage change from	(Dec., 1963...	+211.7	+0.0		-59 ^c	+8.3	+11.3
	Jan., 1963...	+69.0	-2.3		+7 ^c	+9.6	+4.3
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 89	19.5			\$ 144	\$ 102
Percentage change from	(Dec., 1963...	-91.4	+4.3		n.a.	-2.0	-41.0
	Jan., 1963...	+29.0	+6.0			+2.1	-21.5
Alton							
Alton		\$ 136	28.6			\$ 58	\$ 51
Percentage change from	(Dec., 1963...	+97.1	+10.0		n.a.	+3.6	-42.0
	Jan., 1963...	+257.9	+4.0			+5.5	-8.9
Belleville							
Belleville		\$ 250	16.7			n.a.	\$ 72
Percentage change from	(Dec., 1963...	+17.2	+5.0		n.a.		-41.5
	Jan., 1963...	+30.9	+8.4				-7.7

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending January 31, 1964, and February 1, 1963.

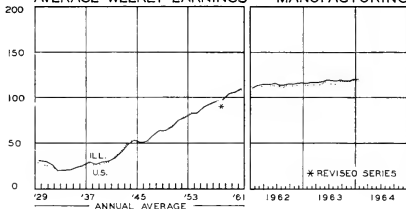
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

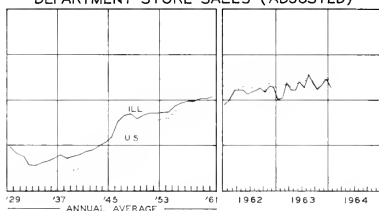
EMPLOYMENT - MANUFACTURING



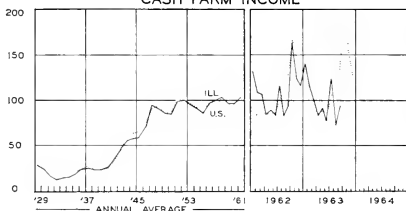
AVERAGE WEEKLY EARNINGS - MANUFACTURING



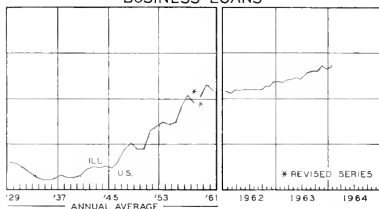
DEPARTMENT STORE SALES (ADJUSTED)



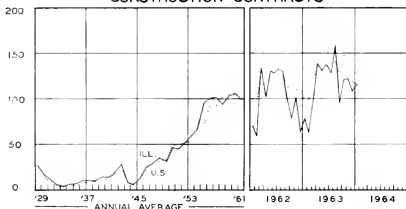
CASH FARM INCOME



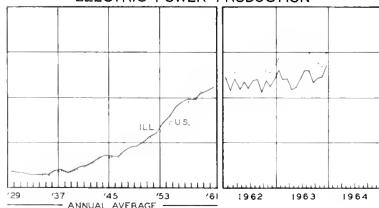
BUSINESS LOANS



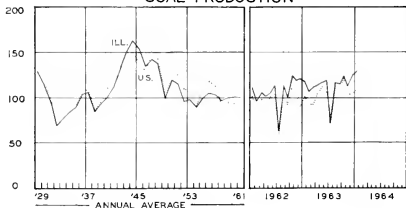
CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



COAL PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

APRIL, 1964

NUMBER 4

HIGHLIGHTS OF BUSINESS IN MARCH

For the most part business indicators were steady or up a little in March. Steel output, about the only exception, leveled off early in the month but rose again during the second half of March to a rate of 2.4 million tons of ingots a week. This was the highest level reached since mid-June, 1963. The pace of automotive production was somewhat slower than in February, but assemblies for the month still exceeded 723,000 units, 12 percent more than in March, 1963. Outputs of electric power, petroleum, and gas were little changed. Paper and paperboard production was steady or up slightly. Freight carloadings continued at about the level of February. The Federal Reserve Board's index of industrial production rose another half point from 127.7 to 128.2 (1957-59 = 100).

Record Car Sales and Inventories

Sales of American-made cars continued at a record pace in March with the delivery of nearly 680,000 new cars, 4 percent more than in March of 1963. Last month's sales also surpassed the previous March record set in 1955. General Motors and Ford deliveries were 5 percent above last year's level; Chrysler had a 13 percent advance. However, American Motors trailed considerably behind its March, 1963, showing.

Stocks of new cars on April 1 stood at 1,205,000, after an increase of 30,000 during the month. This level was a fifth higher than that of a year earlier. The large stocks do not, however, appear to be causing any great concern, partly because of booming sales and partly because of possible work stoppages.

Construction on the Upgrade

Preliminary estimates of the Department of Commerce indicate that construction activity rose somewhat more than seasonally in March. An increase of 7 percent between February and March is expected, but the advance this year amounted to about 9 percent. The gain over March, 1963, was 12 percent. The value of new building totaled \$4.7 billion, equivalent to a seasonally adjusted annual rate of \$67.0 billion, a new record.

Private construction accounted for \$3.3 billion, not quite 1 percent above the February level after seasonal adjustment. The largest categories, nonfarm residential building and nonresidential construction, showed above-average gains, but these were partially offset by fractional declines in farm and public utility building activity. All except one class of private construction showed substan-

tial increases over March, 1963; farm construction was off from the year-earlier figure by 3 percent.

The value of public building activity exceeded \$1.3 billion, and after adjustment, was 4 percent higher than in February.

New Antitrust Decisions

Two recent decisions by the United States Supreme Court are expected to have widespread effect on future corporate mergers. In both cases the Court declared unlawful mergers which had been approved by federal regulatory agencies. In its finding on a bank merger case, the Court held that the elimination of significant competition between major competitive factors in the relevant market violated Section 1 of the Sherman Act. The two banks, after merger, had more than half the commercial banking business in their area. In the other case, two natural gas companies which were potential competitors in California had merged. The Court held that the merger violated Section 7 of the Clayton Act, barring mergers that may substantially lessen competition.

In the first case, the banks had depended on a 1948 decision by the Supreme Court which indicated that factors other than the size of a merged company should be considered. In the current decisions, the Court held that the 1948 decision must be limited to the special facts of that case. It is expected that as a result of these decisions, companies contemplating merger will scrutinize much more carefully the antitrust aspects of their situations. Regulatory agencies may also be more reluctant to approve mergers.

Consumers Increase Instalment Debt

The nation's consumers added \$579 million (seasonally adjusted) to their outstanding instalment debt in February, the largest increase since September, 1959. The advance is equivalent to an annual rate of nearly \$7 billion, well above 1963's record \$5.7 billion; it was also substantially larger than the average of 1963's first quarter, which was the highest of the year. All types of instalment credit contributed to the February expansion. Credit on consumer goods other than automobiles showed the largest relative growth, \$183 million to \$13.5 billion. A rise of \$237 million in automobile debt to \$22.3 billion reflected the continuing strong demand for cars. Personal loans rose by \$144 million. The total of instalment debt outstanding was \$53.55 billion at the end of February.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The Review will be sent free on request.

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The Nature of Unemployment

Economic policy is marking time to see how the effects of the tax cut will work out.

Confident in a job well done is the Council of Economic Advisers, which was primary sponsor of the tax cut. The current, strong upsurge in activity, with continuing stability of commodity prices, affords seeming confirmation of its views on policy and the outlook. It wants no upset of a winning strategy.

Also keeping close tabs on the situation is the Federal Reserve Board, which is edgy about the adverse balance of payments, interest rate increases abroad, and potential inflation. The Fed is ready to act if tighter money seems appropriate but so far has merely let interest rates creep upward slowly and allowed net free reserves to drift toward the zero point in the first quarter of 1964.

The seasonally adjusted rate of unemployment has also drifted downward a little, but the current 5.4 percent of the civilian labor force is still above the low for the current recovery recorded in 1962. Oddly enough, this failure of unemployment to show greater improvement is consistent with the views of both the Council and the Fed.

Debate About Structural Unemployment

Chairman Heller of the Council has advocated overall economic expansion as a way of reducing unemployment. In his view, much of the unemployment is just the ordinary variety that results when production falls, as in a recession, or when the labor force grows more rapidly than the demand for labor, so that there are not enough jobs to go around. But it would take at least two years of rapid growth in the economy to bring unemployment down to the target rate of 4 percent, and he did not expect much in the first month of the tax cut.

Chairman Martin of the Fed, on the other hand, has argued that much of the unemployment is structural, meaning that the location and skill characteristics of the unemployed workers do not match the location and skill requirements of the available jobs. Insofar as this has been the case, the unemployed workers could not be employed, and if the new pattern of location and skill requirements prevail in an upswing, they could not be employed even then. Hence, the main effect of any overall expansion brought on by fiscal measures would be inflationary, and unemployment would continue high.

Some advocates of the "structural" view have argued that we could not even have rapid expansion, because the lack of an adequately trained labor reserve would leave too many jobs unmanned. This is in all probability the acid test of the structural unemployment hypothesis, namely, that production should actually be held up by lack of the right kind of manpower. If so, it is a test for the future; for there is no evidence to date that any significant volume of production has been lost anywhere because of labor shortages at any level of skills.

For the time being, an inescapable deficiency of the structural thesis lies in its static character. The idea necessarily rests on a comparison of the structure of the unemployed, specified by location, age, sex, color, training, education, and other relevant characteristics, with the structure of job vacancies, similarly specified. Unfortunately, realistic job vacancy data are lacking, so the point is impossible to test. In any case, such point-of-time comparisons can give only limited indications of what brought about the existing situation and even less about how it is likely to change in the future.

Dynamic analysis is needed to explain how unemployment may persist even when production is rising, and the dynamic approach indicates that technological unemployment is the real source of the difficulty. Since the workers displaced may be unacceptable for other jobs, or unwilling to accept inferior jobs, some of the unwanted workers will be seeming victims of structural unemployment; but technological change produces not merely structural unemployment, but also just plain ordinary unemployment. Considering the problem in terms of the over-all influence of technological change on employment opportunities leads to the conclusion that the whole controversy about structural unemployment is misdirected.

Mechanisms of Technological Unemployment

Technological advance has implications both for growth and for instability. From a long-run point of view, its important effect lies in making production more efficient. Costs and prices tend to be lowered; consumers' income may be partly diverted to purchases of other goods and services; new opportunities for employment open up, and the resulting growth of the market raises the real income of the whole community.

At the outset, however, there are necessary adjustments in production and employment, and these disturb the even course of development. The improvement in efficiency is typically obtained by installing machines that displace men, and the cost saving is a saving in wage income. There tend to be some, but only partial, offsets to the wage loss; so the decline in income depresses consumer expenditures, there is a reduction in demand for other products, and the loss of jobs may be aggravated. Only in the absence of these deflationary effects could it be said that technological unemployment is wholly structural in character.

The possible resolution of these conflicting tendencies may at any moment be in doubt. Time is needed for prices to be lowered, for purchases to shift, for new lines of production to be expanded. Time is also required for workers to find other jobs, move to new locations if necessary, and acquire new skills. For a while, growth cannot be at a maximum, and unemployment of both kinds is experienced. Stimulants for economic growth may then be applied; but if productivity rises rapidly, it will tend to reconstitute a high level of unemployment

(Continued on page 8)

DECATUR—A GROWING CITY

The changes taking place in the city of Decatur comprise both an example of the sort of problems which can befall such an urban area and also what can be done about solving them.

The city is located in a pleasant, flat area of rich farmland, very close to the geographical center of the State. It is a city which has enjoyed fairly steady growth over the years—the population in 1910 was 31,000, and today the urban area includes about 90,000. The future is rather more challenging, however, for by 1980 this population is expected to grow to 120,000. A significant characteristic is that the actual labor force projected will be 46,000, which is very little changed from the present figure and is partly a reflection of the expected effects of automation.

The city itself presents a not unexpected mixture. A downtown which has both good stores and attractive layout is being surrounded by unbecoming areas. Many of the older sections are not well-maintained, but new developments are occurring in the suburbs. Some areas have pleasant parks, but others do not. Lake Decatur, which was formed by damming the Sangamon River in 1922, provided a magnet for industry in the form of adequate water supply; but it is now being destroyed by silting which has been aggravated by changes to soybean and corn crops in the surrounding farmland.

A further important influence for the city has been its location on four major railroads. The Wabash has also been a significant employer, although dieselization has attenuated this. It also provides an important mainline service, linking Decatur with Chicago, Detroit, and St. Louis, which has assisted the city in gaining increased importance as a supplier in the automotive industry. Additional transportation services are provided by Ozark Air Lines and good long-distance bus services.

Industry

The main base of industry in Decatur used to be the processing of soybeans and corn to produce syrups, starches, and chemical products. The most important company in this area was Staley Manufacturing. In addition, there were certain specialist metal-product companies, such as Mueller, which supplies most of the nation's fittings for service connections to water and gas lines. The inexpensive ready-to-wear washable-dress industry also started here just before the turn of the century.

During the second World War some new defense plants were located in Decatur, and this has had a lasting effect. Food processing is no longer the leading activity, its place having been taken by national firms in metal products. The result is that exports have become even more important in the economic life of the city, which is now very closely tied to the fortunes of the construction and automobile industries.

Some of the large companies which have moved in include Caterpillar (tractors and graders), Borg-Warner (automatic transmission equipment), General Electric (control equipment), and Firestone. There are now over 100 plants of various sizes in the urban area, and it is

expected that expansion in the manufacturing of durable goods will continue. The observed trend is to a labor force of which something like 30 percent are in manufacturing, 20 percent in trade, 12 percent in business and service, and the remainder in a variety of other categories.

The Future

The city of Decatur has become increasingly aware of the fact that the future does not automatically take care of itself. Planning has been attempted in the past but has not always been carried through sufficiently. Plans were produced in 1920 and again in 1938, with the latter being revised in 1957. An over-all highway plan was prepared in 1952 and subsequently revised. This highway planning has assumed increasing importance as there is a noticeable increase in the use of truck transportation by newer firms locating on the periphery.

Decatur has long had a mayor-and-commissioners form of government, and more recently effectively established the posts of city manager and city planner. By endowing adequate authority to professional staff and by choosing the right people and properly supporting them in their plans, the city is obtaining a better understanding of its problems and a better chance of overcoming them.

More research has been carried out to discern the real workings of the city—of the people from whom it is created. One such project was a study of the aged, and another examined the in-and-out migration of population, which was felt to be a matter of some concern. Some concrete projects have been undertaken, such as transportation experiments in cooperation with the bus system. An over-all long-range downtown plan is now being made, and the provision of an additional 3,000 off-street parking spaces is under discussion.

By the early 1970's the nearby Oakley Dam and Reservoir should be completed. This will re-establish an adequate water supply for industry in the future, and the city and the State are cooperating in a joint development program. The surrounding area could become an important recreational facility for the entire central Illinois region and further strengthen the economy of Decatur.

Current plans for construction of private plants and buildings run to \$33 million, and private housing will likely total \$10 million for 1964. Investment in public works is generally higher than in other comparable cities, and current highway and sewer improvements total over \$6 million.

Decatur has long drawn both employees and buyers from surrounding areas. The labor force includes many living within a 25 mile radius, and annual retail sales of \$170 million indicate it is a leading retail center for the region. The strength of the city will grow as the present program of voluntary annexation of adjacent areas continues.

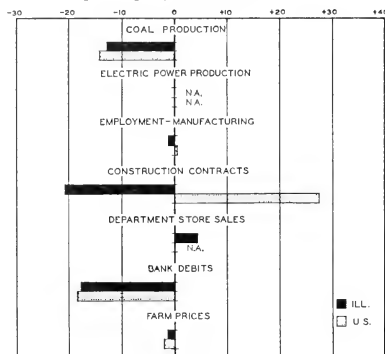
The potential for further development is apparent from the changes of the past few years. That Decatur expects to meet the future is apparent from the growing participation and strength of citizen groups and the positive actions of the city administration.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, January, 1964, to February, 1964



* Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Feb. 1964 (1957-59 = 100)	Percentage change from Jan. 1964	Feb. 1963
Employment—manufacturing ¹	96.8	-7.1	+0.8
Weekly earnings—manufacturing ¹	120.6 ^a	-0.6	+3.5
Consumer prices in Chicago ²	105.7	-0.1	+0.6
Life insurance sales (ordinary) ³	134.0	+5.9	+16.0
Dept. store sales in Chicago ⁴	119.0 ^b	+4.3	+16.7
Farm prices ⁵	94.0	-1.1	-3.1
Bank debits ⁶	140.3	-17.7	+10.2
Construction contracts ⁷	92.9	-20.6	+48.2
Electric power ⁸	127.2	-7.3	+6.1
Coal production ⁹	113.0	-12.9	+5.8
Petroleum production ¹⁰	87.2	-11.3	-2.5

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Agcy. Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Feb. 1964	Percentage change from Jan. 1964	Feb. 1963
Annual rate in billion \$			
Personal income ¹	478.3 ^a	+0.0	+5.6
Manufacturing ¹			
Sales	435.6 ^a	-1.1	+6.8
Inventories	60.1 ^{a, b}	+0.2	+4.2
New construction activity ¹			
Private residential	19.7	-8.9	+10.7
Private nonresidential	17.3	-3.9	+13.7
Total public	14.2	-9.5	+12.4
Foreign trade ¹			
Merchandise exports	25.3 ^c	-2.3	+108.5
Merchandise imports	17.5 ^c	-5.0	+30.3
Excess of exports	7.8 ^c	+4.5
Consumer credit outstanding ²			
Total credit	68.8 ^b	-0.6	+11.0
Installment credit	53.6 ^b	-0.1	+11.9
Business loans ²	43.1 ^b	+1.5	+8.2
Cash farm income ³	41.5 ^c	+0.1	-1.4
Indexes (1957-59 = 100)			
Industrial production ⁴			
Combined index	128 ^a	+0.3	+6.2
Durable manufactures	128 ^a	+0.4	+6.5
Nondurable manufactures	129 ^a	+0.2	+6.3
Minerals	107 ^a	-0.4	+2.6
Manufacturing employment ⁴			
Production workers	101 ^a	+0.4	+2.1
Factory worker earnings ⁴			
Average hours worked	101	+1.3	+0.8
Average hourly earnings	117	0.0	+3.3
Average weekly earnings	119	+1.3	+4.1
Construction contracts ⁵	148	+27.5	+46.2
Department store sales ⁶	n.a.		
Consumer price index ⁷	108	-0.1	+1.4
Wholesale sales ⁸			
All commodities	101	-0.5	+0.3
Farm products	95	-1.9	-2.1
Foods	101	-1.6	+0.4
Other	101	0.0	+0.7
Farm prices ⁹			
Received by farmers	99	-2.0	-1.0
Paid by farmers	107	0.0	+0.9
Parity ratio	77 ^d	-1.3	-1.3

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b End of month. ^c Data for January, 1964, compared with December, 1963, and January, 1963. ^d Based on official indexes, 1910-14 = 100, n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1964					1963
		Mar. 28	Mar. 21	Mar. 14	Mar. 7	Feb. 29	Mar. 30
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,458	1,419	1,315	1,318	1,425	1,474
Electric power by utilities	mil. of kw. hr.	17,972	18,140	18,240	18,226	18,740	16,425
Motor vehicles (Wards)	number in thous.	199	198	197	194	206	189
Petroleum (daily avg.)	thous. bbl.	7,571	7,592	7,626	7,631	7,655	7,478
Steel	1957-59 = 100	129.2	126.8	124.3	124.1	125.2	128.1
Freight carloadings	thous. of cars	528	537	521	518	529	559
Retail sales	mil. of dol.	4,968	4,708	4,511	4,477	4,583	4,822
Commodity prices, wholesale:							
All commodities	1957-59 = 100	100.5	100.5	100.6	100.4	100.4	99.9
Other than farm products and foods	1957-59 = 100	101.2	101.2	101.2	101.2	101.1	100.6
22 commodities	1957-59 = 100	94.2	93.9	94.4	94.0	94.8	92.1
Finance:							
Business loans	mil. of dol.	38,172	38,137	37,507	37,599	37,590	35,208
Failures, industrial and commercial	number	299	289	306	300	337	329

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for March, 1963.

RECENT ECONOMIC CHANGES

Consumer Instalment Credit

With the cyclical advance in consumption expenditures, especially in durable goods, new consumer instalment credit has been rising. Instalment credit outstanding at the end of 1963 totaled \$54 billion, an increase of \$5.7 billion or 12 percent over the previous year. This compares with an increase of \$4.5 billion in the preceding 12-month period, and \$700 million in 1961, which included part of the last recession and only the earliest stage of the recovery.

The rate of increase in personal income was only 5.3 percent last year; thus consumers are continuing the post-Korean War trend of expanding their debt faster than the increase in their income. However, there are significant differences between the rate of debt accumulation in this last upward movement and in the two previous recoveries. The increase in debt in 1962 was not so rapid as that which occurred in either 1955 or 1959, despite a significantly higher level of personal income. On the other hand, in 1963 there was not the rapid tapering off that occurred in 1956 and 1960, and the average monthly change in debt outstanding increased slightly in the first three months of 1964.

Plant and Equipment Outlays

Businessmen expect a continued rise in purchases of new plant and equipment during 1964, according to the Department of Commerce. An over-all increase of 10 percent is projected (see chart). If this expectation is realized, purchases of new plant and equipment will reach a new high of \$43.2 billion for the year.

If these plans are completed, the present investment expansion will have lasted three and one-half years. Such continued advance would exceed that recorded in 1955-57

in duration and would show about the same degree of rise as measured in physical volume though not in current dollar terms. The investment programs now outlined for 1964 will provide a substantial stimulus to business activity. Most directly affected will be the equipment-producing industries and their suppliers, where the inflow of new orders has increased to record levels in the past six months. In addition, the cut in individual and business tax rates will tend to increase the over-all demand and aid in completing investment projects in process.

Gold Situation

During 1963 gold output in the Free World reached the highest level on record, about 39 million ounces valued at \$1.3 billion. Of these enlarged supplies, \$520 million moved into the monetary stocks of governments and central banks; the arts, industry, and private holdings took \$780 million.

In the same year the United States gold stock declined to its lowest level since 1939, but at \$15.5 billion it was still about 39 percent of the world's total monetary gold outside the Soviet Union. However, last year's decline was the smallest since 1958, only \$465 million as compared with \$911 million in 1962. The reduction was brought about in part by new forms of international cooperation worked out by the United States Treasury and the Federal Reserve Board.

As in earlier years, the rise in world gold output was attributable to further gains in South African production (which accounts for 70 percent of world output) through the development of new mines and improved technology. Canada, the second largest gold producer in the world, mined only \$138 million worth, 5 percent less than in 1962, despite the rise in the Canadian dollar price of gold brought about by devaluation in May, 1962. Russia's gold output is not known but Western observers place it at \$350 million to \$600 million a year. Russian gold sales during the year were estimated to be approximately \$400 million.

Housing Activity

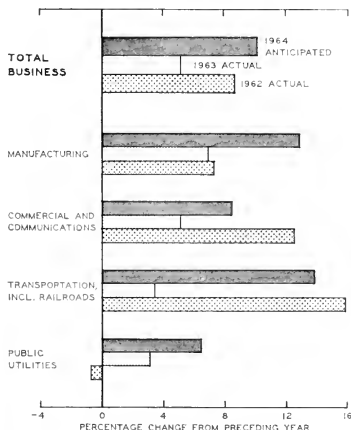
In 1963 private nonfarm housing starts reached 1.6 million units, continuing the recovery that began in early 1961. This recovery has been spread over the entire country with no one region showing outstanding gains. A significant aspect of the present advance is that it has increasingly focused on apartment building. Multifamily units started rose 23.5 percent last year. Single-family housing starts, though up about 1 percent last year, are still running about 20 percent below the peak 1959 total of 1.2 million units. Multifamily starts, however, have risen 105.8 percent since 1959 to a total of 581,900 units. This pattern of growth in housing starts has applied to all regions but particularly to the Pacific Coast area, where the number of multifamily starts is roughly the same as single-family starts.

Automobile Output

Automobile output continued to support the growth of business by accounting for 20 percent of the over-all rise in the gross national product during 1963. According to the United States Office of Business Economics, the value of passenger car output was about \$24 billion, 12 percent

(Continued on page 8)

CHANGES IN CAPITAL EXPENDITURES



Source: U.S. Department of Commerce.

ARE RETAIL FIRMS OVEREXPANDING?

RICHARD M. HILL, Associate Professor of Marketing

One of the most dramatic developments during the postwar period has been the expansion of retail shopping facilities. Almost without exception our larger cities have become ringed with shopping centers which include hundreds of new retail outlets. This expansion has been prompted by a growing population, rising per capita income, and increasing reliance on private automobiles. Personal consumption expenditure has doubled in the last quarter of a century and our most prosperous middle-class families have moved to the suburbs. These developments have not only prompted a spirit of optimism among retail merchants, but have forced an expansion on all who wanted to share the fastest growing markets.

Investment in Retail Trade

While physical evidence of the growth in retail facilities can be seen in every locality, there is little in the form of statistical evidence which adequately portrays its extent. Some notion of the rate and magnitude of the expansion, however, can be gained from the amount of investment in depreciable assets and land by corporations in retail trade. Investment in depreciable assets (buildings and fixtures) tripled between 1948 and 1961. Investment in land nearly doubled over the same period (see Table 1).

The rate of increase in depreciable assets from 1958 to 1961 has been slightly more than \$750 million a year. Investment in land has increased by about \$33 million a year during this period. These average increases were almost one-fourth higher than in the preceding four years. Because of the increasing base, the percentage growth rate in the total advanced more slowly, from 5.0 percent per year to 5.3 percent.

Investment in inventory also increased over \$750 million a year from 1958 to 1961. This was more than double the average increase for the 1954-58 period (Table 2).

Growth in Numbers and in Failures

However one may react to these data, they suggest a fundamental question. How many retail stores are really needed to adequately serve a nation of 200 million people? The answer in general terms can be provided by almost any college sophomore who has taken a basic economics course. In our system the people decide how many retail

TABLE 1. INVESTMENT BY RETAIL CORPORATIONS
(Millions of dollars)

Year	Depreciable assets	Land	Total depreciable assets and land	
			Dollar investment	Average rate of increase (Percentage)
1948.....	5,544	687	6,231	
1954.....	10,872	987	11,859	16.6
1958.....	13,354	1,095	14,449	5.0
1961.....	15,693	1,196	16,888	5.3

Source: U.S. Treasury Department, *Statistics of Income, Corporation Income Tax Returns*, 1948, 1954, 1958, and 1961.

TABLE 2. INVENTORY INVESTMENT
(Billions of dollars)

Year	Average end-of-month book value	Average rate of increase (Percentage)
1954.....	22.2	
1958.....	24.0	1.9
1961.....	26.8	3.7

Source: *Survey of Current Business*, Annual Review Numbers, 1955, 1959, and 1962. Series prior to 1954 not comparable with later period.

stores we should have by their willingness to patronize them. So long as new stores are added and all or most of them can continue to make an acceptable profit, there is no economic waste involved. Under these conditions, the expansion of retail facilities might be justified on grounds that consumer demand for their product offerings is sufficient to more than cover the cost of making them available.

Data seem to indicate that the expansion to date has been justified. Business failures in retail trade have been reduced to a rate of increase of less than 1 percent a year, and the proportion of retail failures to total retail establishments has been less than 1 percent a year throughout the postwar period. It thus appears that the consuming public has given retailers a resounding vote of approval. (See Tables 3 and 4.)

An examination of the failure record in retail trade nevertheless reveals some ominous tendencies. The number of retail failures has continued to increase absolutely. Although there have been some deviations, the upward trend of failures in retail trade which began in 1945 has

TABLE 3. BUSINESS FAILURES, 1948-62

Year	Number of failures	Number of retail establishments (Thousands)	Percentage of all retail establishments
1948.....	2,185	1,770	0.12
1954.....	5,491	1,722	0.32
1958.....	7,514	1,788	0.42
1962.....	7,552	1,828	0.41

Source: *Ibid.*, 1949, 1955, 1959, and 1963.

TABLE 4. LOSSES TO CREDITORS OF BANKRUPT FIRMS, 1948-62
(Millions of dollars)

Year	Failure liabilities	Total retail liabilities	Percentage of total liabilities
1948.....	40	n.a.	
1954.....	145	33,315	0.44
1958.....	225	38,462	0.58
1962.....	350	45,481	0.77

Sources: *Ibid.*; *Statistics of Income*, op. cit. n.a. Not available.

never been reversed. The number of retail failures more than tripled from 1948 to 1962, a period during which the number of retail establishments increased by less than 15 percent.

Losses to creditors of retail businesses have increased more than eight times since 1948, from \$40 million to \$350 million (1962). The fact that even the \$350 million loss to retail creditors in 1962 represented less than 1 percent of the total liabilities of retail merchants does not lessen the significance of such a loss experience. Data are not available to put the loss in percentage terms for 1948, but there was a steady rise in this percentage from 1954 to 1962.

The trends in retail failures are approaching a level at which the risks from adding new outlets can increase sharply. If retail failures should reach significant proportions of the total number of retail outlets and total retail liabilities, it would be evident that the expansion of retail outlets had been exceeding the number which consumers were willing to support.

Sales per Store Leveling Off

A particularly significant change of another kind has been occurring since 1948. The rate of increase in the average size of the retail store has been declining, giving evidence that a trend which has continued since 1935 may be coming to an end. Since the mid-1930's the average size of the retail store has been increasing as the efficiency of larger units became more apparent. However, the increase in retail sales has not kept pace with increases in the number of retail outlets. This slowing of the increase in sales per store has been especially noticeable since 1954 (Table 5).

It is possible, of course, to place more than one interpretation on the leveling off of the upward trend in the average size of retail outlets. The typical suburban shopping center, which has demonstrated its popularity, is generally composed of one or two large stores surrounded by a cluster of smaller, more specialized outlets offering complementary rather than directly competing merchandise. Coupled with this has been a reaction of the consumer against shopping in mammoth sales floors with its attendant inconveniences of having to search for desired merchandise, jostling by crowds, and the impersonal atmosphere of self-service—which is so often associated with the large outlets. It can be argued, therefore, that the slowing of the increase in sales per store merely reflects a change in retail merchandising as retailers seek to cater to the suburban shopper with smaller, more personalized outlets.

TABLE 5. RETAIL SALES AND ESTABLISHMENTS, 1935-62

Year	Retail sales (Billions of dollars)	Retail establishments (Thousands)	Average sales per establishment (Thousands of dollars)	Average rate of increase in sales-size (Percentage)
1935.....	34.8	1,587	20.6	
1939.....	42.0	1,770	23.8	10
1948.....	130.5	1,769	73.8	209
1954.....	170.0	1,721	98.7	34
1958.....	199.6	1,788	111.6	13
1962.....	235.3	1,827	123.3	10

Sources: *Statistical Abstract of the United States*, 1963, p. 965; estimate of number of retail establishments in 1962 by Bureau of the Census.

TABLE 6. CONSUMER EXPENDITURES AND RETAIL SALES, 1948-62
(Billions of dollars)

Year	Expenditures		Retail sales		Retail sales as percentage of expenditures
	Total amount	Percentage change	Amount	Percentage change	
1948.....	178.8		130.5		70
1954.....	236.5	+32	170.0	+30	72
1958.....	293.2	+24	199.6	+17	68
1962.....	355.5	+21	235.3	+18	66

Source: *Survey of Current Business*, op. cit.

On the other hand, advances in retail sales have shown a tendency to lag behind increases in personal consumption expenditure (see Table 6). Personal consumption expenditure has increased 98 percent since 1948 while retail sales have increased 80 percent. Although this is not an alarming discrepancy, it is significant that the proportion of personal consumption expenditure spent in retail stores has been receding from a high point reached in 1954. This should give pause to retail planners whose optimism is based on projections of personal consumption expenditure. The service industry is becoming competitive with retail trade as the consuming public is beginning to show some preference for services over goods.

Another disturbing tendency has been the behavior of retail profits. Expense and income data are not available for partnerships and proprietorships in retail trade prior to 1954. However, profit data for retail corporations, which account for the major share of all retail sales, show 14 years of continuous decline in relation to sales. (See Table 7.)

The only alternative in the face of declining profit margins is to increase sales volume. Yet growth in average sales per store has been declining. The "pinch" in which retail corporations find themselves is indicated by the contrary behavior of their total sales and average profits. Although sales of retail corporations have more than doubled since 1948, the average profit margin in 1962 was less than one-third of its value in 1948. This is partly the effect of price behavior. Services have been in increasing demand and their prices have been put up while retail prices of commodities have been fairly steady.

Conclusion

In view of these tendencies, it becomes pertinent to ask whether demand for the convenience of additional retail stores may be approaching a point of satiation beyond which there is likely to be a severe weeding out of

TABLE 7. NET PROFIT OF RETAIL CORPORATIONS, 1948-62
(Millions of dollars)

Year	Net profit	Sales	Net profit as percentage of sales
1948.....	3,347	55,564	5.8
1954.....	2,330	82,237	2.8
1958.....	2,287	105,010	2.2
1962.....	2,152	132,437	1.6

Source: *Statistics of Income*, op. cit.

the weaker merchants. If present trends continue, there is some likelihood that consumer demand will not support so much retail trade and the number of outlets may have to be shrunk. Since an investment in store buildings and fixtures is not a short-run undertaking, those who plan such investment must anticipate demand for these facilities for a long period into the future.

Present indications seem to forewarn that a time is approaching when investment in retail facilities should concentrate on the modernization and improvement of existing facilities rather than the net addition of new facilities. The alternative would seem to be a bitter competitive struggle as firms compete for survival in a market they have collectively overestimated. While the resulting price reductions might delight consumers, losses to creditors could be substantial. The recent reduction in taxes may serve to salvage the situation if it produces increased spending at retail. Reversing a trend, however, is rather difficult.

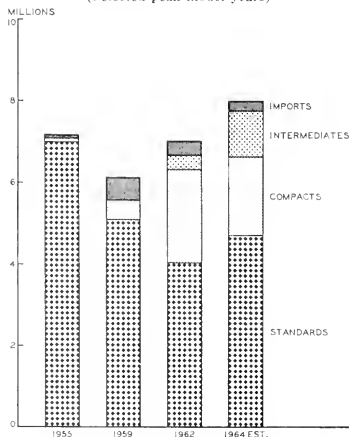
Recent Economic Changes

(Continued from page 5)

higher than in 1962 and 38 percent greater than in 1961. In addition, auto product reached a record \$26 billion at a seasonally adjusted annual rate during the final quarter of 1963.

The current models set new records for the first quarter of the 1964 model year with production at an annual rate of about 8.0 million cars (see chart). During the 1963 model year (October, 1962-September, 1963) manufacturers assembled a record total of 7.3 million new cars. On a calendar-year basis, output of domestically produced cars during 1963 was 7.4 million units; this was exceeded only by the 1955 total of 7.9 million cars.

CAR OUTPUT AND IMPORTS (Selected peak model years)



Source: U.S. Department of Commerce, *Survey of Current Business*, February, 1964, p. 6.

The Nature of Unemployment

(Continued from page 2)

despite the increase in production. The period of transition then becomes semipermanent, and there always appears to be some "structural" unemployment.

The disturbing effects of rising productivity do not necessarily stop with the slowing of growth. Too rapid a displacement of workers may leave consumer markets sufficiently out of balance with industrial capacity to produce a slowdown in business investment. This may result in recession, which tends to become cumulative, and then the unemployment from insufficient demand predominates. If the decline in investment becomes severe enough, it will slow the growth in productivity, and even the research from which the new technology derives may be curtailed.

Complaints About Automation

The worker who has been displaced has no thought of any such extreme economic threat when he complains about "automation." He is not concerned either with the philosophy of growth or with complications of fiscal and monetary policy but only with his own difficulties in obtaining employment that returns an adequate income.

Similarly, technological changes have been undermining the position of the labor unions for at least a decade. The decline in production workers relative to manufacturing production has been more than one-fourth in the last 10 years. Although the actual production-worker decline has been offset by increases in nonproduction workers, the latter are mostly technical, professional, executive, and other salaried employees who are not members of the unions. The loss in union membership and the inability of displaced union members, especially older workers, to find other employment creates a critical situation for union leadership.

Faced with this situation, labor has sought in desperation for measures that could reduce the excess of unemployment. Many of the union proposals are clearly expansionary—extension of social security, expanded public works, higher incomes for the poverty-stricken, with assistance for similar programs abroad, and a truly national employment service, with better facilities for testing, counseling, retraining, and relocating workers. The "war on poverty" has already been included in a small way in the federal budget for fiscal 1965. Measures of the last type are in use in other industrial countries.

Other proposals, such as the 35-hour work week, have controversial aspects, but past experience affords at least some warrant for the idea that the long-term decline in working hours may have been a significant part of the complex of adjustments necessary to re-establish growth against the inroads of technological displacement. President Johnson has requested that further studies of the question be made. He takes the reasonable position that the logical way to look at labor's proposals is to regard them as possible solutions of problems with which labor has a great deal of experience.

The demands of organized labor for new programs to overcome the effects of technological unemployment are, in the present circumstances, quite forthrightly self-seeking in that the unions would certainly benefit from them. With some minor exceptions, such as the requests for tariff protection by some unions, other groups would also gain from any increase in real national income. A detached appraisal of the situation indicates that on the whole the benefits to the unions would be incidental to those realized by the community as a whole.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Multiple Jobholders

According to the latest national survey of multiple jobholders conducted by the Department of Labor, 3.9 million persons held two or more jobs in May, 1963. This number was 18.2 percent greater than a year earlier and represented the first substantial increase since 1956.

Persons whose primary jobs were in agriculture, public administration, education, or mining were more likely to hold an extra job than those in any other industry group and most of the second jobs were concentrated in trade and service industries or in self-employment. Protective service workers, professional and sales workers (other than retail trade), farmers, and craftsmen had the highest rates of multiple jobholding.

The increase in the number of persons holding two or more jobs has raised the question of whether these extra jobs could be made available for unemployed workers. However, nearly all dual jobholders work relatively few hours at their second jobs, averaging only 13 hours a week. In addition, many such secondary jobs are of short duration or are available only intermittently. Even if all of these second jobs were available for the unemployed, other problems would have to be overcome. There would have to be a matching of jobs usually held by men or by women, a willingness for unemployed workers to relocate geographically, and the necessity for the unemployed to have the skills or physical abilities to fill the available jobs.

The jobless worker would not often be able to step into the supplemental occupations of 1.6 million persons because these positions have been created by the workers for themselves or because of stringent job requirements. Another 1.3 million were self-employed as farmers, professionals, or businessmen, and the unemployed would lack the required training, experience, education, or finances. The remaining 1.0 million persons were employed in professional, technical, or managerial employment and

it is highly improbable that many of the unemployed in other occupational categories could meet the training qualifications necessary.

Pensions for Salaried Workers

A recently completed study by the Bureau of Labor Statistics indicated that pension plans for salaried employees are more advantageous than those for production workers. They tend to provide a greater range of benefits (such as earlier retirement, investment opportunities, and death payments) and larger benefits for the same earnings and service levels. However, salaried-employee plans frequently require employee contributions, stipulate more restrictive participation requirements, and provide for more involuntary retirement than is the case with production-worker plans.

The study also pointed out that participation by a salaried worker is not necessarily automatic but depends on such factors as required minimum period of employment, age requirements, and minimum salary reached. Basically, pension plans for salaried workers require that such workers be 25 to 35 years of age, have 6 months to 5 years of service, and receive at least \$4,200 to \$4,800 in annual wages. In addition, some plans, by requiring the completion of a specified length of credited service, prevent newly hired older workers from qualifying for the pension—either by not crediting service after a specified age or by automatically retiring all employees at a specified age.

The companies studied place company and employee contributions in trust funds or in purchased annuities to be paid each worker at retirement. Generally trust funds were administered by either a bank or a trust company or were underwritten by an insurance company.

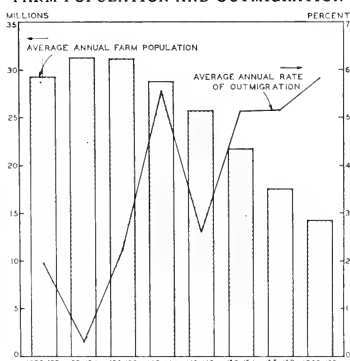
Rural Population Changes

For over a century farm people have been moving to urban centers and to nonfarm jobs. This shift has accelerated in the last two decades. Of the country's 54 million rural residents 75 percent do not now live on farms and 30 percent of the male workers in farm areas work primarily in nonagricultural jobs.

In 1960 only 67 percent as many people were employed in agriculture as in 1860 but these 4.7 million persons produced more than enough food, feed, and fiber to meet the needs of six times as many people. Increased productivity through technological advances, larger farms, and well-paying jobs in the urban areas have all influenced the population movement away from the farm.

Another factor contributing to the movement has been the persistently high fertility rate in the rural population. The Department of Agriculture has estimated that the rural population would have risen by 11 million during the 1950's instead of falling by 500,000 if it had not been for migration to the cities and the spread of cities into the rural areas. Between April, 1940, and April, 1962, the net migration from rural areas totaled over 23 million (see chart) but the population fell by only 16 million during this period because of a natural increase of about 1 person for every 4 or 5 who left the farm. The persons who have left the rural areas are predominantly young adults, and the remaining population is heavily weighted with persons in their nonproductive years.

FARM POPULATION AND OUTMIGRATION



Sources: U.S. Departments of Labor and Commerce.

LOCAL ILLINOIS DEVELOPMENTS

Electric Power Consumption Up in 1963

Electric power consumption for 14 Illinois metropolitan areas totaled 17.6 billion kilowatt-hours in 1963, an increase of 5.8 percent over the previous year's level of 16.6 billion kilowatt-hours (see chart). For the entire State, approximately 49 billion kilowatt-hours were consumed in 1963, also an increase of nearly 6 percent over 1962. For the nation, electric power consumption rose to a total of 914 billion kilowatt-hours, a gain of more than 7 percent over 1962. These figures do not include electricity produced by private industrial utilities.

Electric power consumption rose in all of the cities shown. The increase of 14.3 percent for Champaign-Urbana reflected, among other things, the entry of a new 425,000 square-foot Kraft Foods plant into the area in April, 1963. Significantly large increases were realized also by Galesburg (13 percent), Rock Island-Moline-East Moline (12 percent), Belleville (11 percent), Danville (10 percent), and Decatur (10 percent). Gains exceeding 6 percent took place in Bloomington, Rockford, Peoria, and East St. Louis. In the other cities, electric power consumption rose by smaller percentages, the smallest rise being 3.3 percent for Alton.

Hospital Construction Projects

Since the beginning of 1964, Governor Otto Kerner has announced a number of new hospital construction projects, located largely in central and southern Illinois. The total value of the projects is estimated at \$3.8 million. A large proportion of these funds is to come from the federal government through the Public Works Acceleration Act.

A new 45-bed Union Hospital, costing slightly over \$1 million, is to be constructed in West Frankfort. Other

specific projects include \$935,000 for the construction of a central dietary facility at the Illinois School for the Deaf at Jacksonville; \$336,000 for an addition to the Pinckneyville Community Hospital; \$329,000 for the construction of the University of Illinois Rehabilitation Center at Champaign-Urbana; and \$305,000 for the construction of an all-faiths chapel and other improvements at the East Moline State Hospital. Allocations have also been made for additions and other improvements for the Memorial Hospital in Mattoon; the Anna State Hospital; the Richard Memorial Hospital in Olney; the Carlinville Area Hospital; and the Kankakee State Hospital.

Prospective Crop Plantings

The United States Department of Agriculture reports that Illinois farmers plan a very slight increase in total crop acreage for 1964. Plantings are expected to comprise 20.8 million acres, a gain of less than 1 percent over the previous year. Increases in acreages for corn, soybeans, and wheat are expected to be partially offset by declines in oats and hay.

Corn plantings are expected to come to 9.4 million acres. This is an increase of 2 percent over both 1963 and the 1958-62 average, but is 10 percent below the high set in 1960. For soybeans a record of 5.8 million acres is anticipated, up 3 percent from 1963 and 11 percent from the 1958-62 average. The estimate of 1.9 million acres for winter wheat shows an increase of 5 percent over the previous year. The wheat crop is in good condition in nearly all areas of the State.

Oat acreage is expected to be at its lowest level since the 1870's, down 13 percent from 1963 and 26 percent from the five-year average. Hay acreage is to be 4 percent less than in 1963 and 9 percent below the 1958-62 average.

Movement of the Meat-Packing Industry

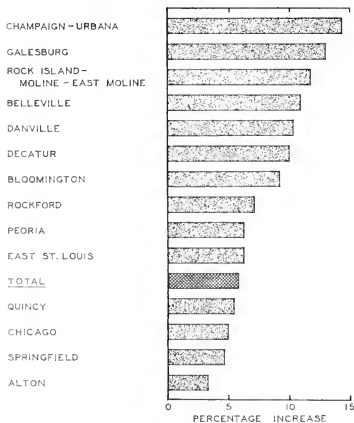
Beginning in the early 1950's, major meat-packing companies have undertaken to locate slaughter operations away from Chicago and closer to supply sources in smaller centers in Illinois and in other areas of the nation. This trend reflects new developments in motor transportation and the existence of strong upward wage pressures in the city area.

This major industry movement continues to create a significant unemployment problem in Chicago. About 1,100 or approximately 5 percent of the 23,000 stockyard workers who were displaced are still registered with the Illinois State Employment Service. Owing to limited educational background, lack of transferable skills, and the fact that a large percentage of them are in the over-40 age bracket, these workers are difficult to place in jobs.

At present, ten packinghouse companies maintain slaughter operations in the reduced yards area. These operations have been greatly modernized and consolidated. The number of firms processing and packaging meat products in the city area has increased from 172 firms in 1957 to 182 firms in 1963, but operations are highly automated and relatively small numbers are employed.

Other Illinois communities have benefited from the movement of the industry. In 1962, slaughtering plants were opened in the Sterling-Rock Falls area, Moline, and Rochelle. In addition, plans to build new plant facilities in Bureau Junction and Monmouth were announced early this year.

INCREASES IN ELECTRIC POWER CONSUMPTION, 1962 TO 1963



Sources: Local power companies.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1964

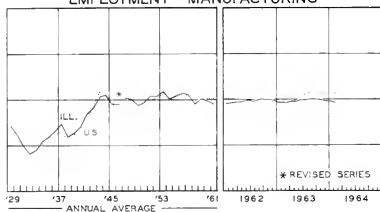
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000,000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS.							
ILLINOIS.....		\$26,737 ^a	1,519.8 ^a			\$23,319 ^a	\$19,281 ^a
Percentage change from.....	Jan., 1964	-72.8	-3.4		-2	-17.7	-4.2
	Feb., 1963	-0.9	+2.4		+21	+10.2	+3.9
NORTHERN ILLINOIS							
Chicago							
Chicago.....		\$18,703	1,093.8			\$21,683	\$16,358
Percentage change from.....	Jan., 1964	-70.2	-1.9		-2	-18.1	-3.8
	Feb., 1963	+25.0	+1.3		+21	+10.0	+3.3
Aurora							
Aurora.....		\$ 490	n.a.			\$ 91	\$ 207
Percentage change from.....	Jan., 1964	-36.9				-13.3	-6.3
	Feb., 1963	-53.5				+18.2	+16.3
Elgin							
Elgin.....		\$ 316	n.a.			\$ 55	\$ 189
Percentage change from.....	Jan., 1964	-63.6			n.a.	-12.7	-15.2
	Feb., 1963	+45.0				+17.0	+21.9
Joliet							
Joliet.....		\$ 752	n.a.			\$ 97	\$ 139
Percentage change from.....	Jan., 1964	+53.8			-5	-12.6	-10.3
	Feb., 1963	+26.4			+19	+12.8	+0.0
Kankakee							
Kankakee.....		\$ 217	n.a.			n.a.	\$ 79
Percentage change from.....	Jan., 1964	+4.8			n.a.		+3.9
	Feb., 1963	+382.2					+2.6
Rock Island-Moline							
Rock Island-Moline.....		\$ 399	51.3 ^b			\$ 137 ^b	\$ 219
Percentage change from.....	Jan., 1964	+14.3	-6.4		n.a.	-8.7	-18.9
	Feb., 1963	+32.6	+16.1			+16.1	+1.4
Rockford							
Rockford.....		\$ 1,263	69.7 ^c			\$ 230	\$ 329
Percentage change from.....	Jan., 1964	-23.8	-4.7		+12 ^c	-4.6	+2.5
	Feb., 1963	+27.2	+5.4		+25 ^c	+18.6	+7.5
CENTRAL ILLINOIS							
Bloomington							
Bloomington.....		\$ 240	13.8			\$ 96	\$ 185
Percentage change from.....	Jan., 1964	-33.3	-5.5		n.a.	-11.1	+20.9
	Feb., 1963	+63.3	-11.5			+10.3	+32.1
Champaign-Urbana							
Champaign-Urbana.....		\$ 1,138	22.7			\$ 102	\$ 183
Percentage change from.....	Jan., 1964	+505.3	-5.0		n.a.	-8.9	+3.4
	Feb., 1963	+2,131.4	+12.9			+12.1	+11.6
Danville							
Danville.....		\$ 120	22.2			\$ 54	\$ 80
Percentage change from.....	Jan., 1964	-47.6	+12.9		+10	-12.9	-18.4
	Feb., 1963	+57.9	+1.8		+10	+3.8	-9.1
Decatur							
Decatur.....		\$ 388	46.6			\$ 139	\$ 161
Percentage change from.....	Jan., 1964	-16.9	+3.8		+13	-5.4	-5.3
	Feb., 1963	+167.6	+10.7		+20	+13.0	+5.2
Galesburg							
Galesburg.....		\$ 202	13.3			n.a.	\$ 58
Percentage change from.....	Jan., 1964	+708.0	-2.9		n.a.		-4.9
	Feb., 1963	+2,785.7	+6.4				+5.5
Peoria							
Peoria.....		\$ 486	58.9 ^e			\$ 264	\$ 352
Percentage change from.....	Jan., 1964	-22.6	-24.2		0	-14.0	-0.8
	Feb., 1963	-73.2	-15.5		+8	+11.9	-1.7
Quincy							
Quincy.....		\$ 267	16.8			\$ 56	\$ 89
Percentage change from.....	Jan., 1964	+37.1	-7.2		n.a.	-13.8	-0.0
	Feb., 1963	+251.3	+7.0			+9.8	+3.5
Springfield							
Springfield.....		\$ 501	49.7			\$ 149	\$ 445
Percentage change from.....	Jan., 1964	-61.6	-4.4		+1 ^c	-18.6	-12.9
	Feb., 1963	-92.0	+3.8		+12 ^c	+6.4	+12.9
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis.....		\$ 34	18.4			\$ 117	\$ 92
Percentage change from.....	Jan., 1964	-61.8	-5.6		n.a.	-18.7	-0.8
	Feb., 1963	-17.1	+2.2			+2.6	+12.2
Alton							
Alton.....		\$ 1,072	26.7			\$ 49	\$ 46
Percentage change from.....	Jan., 1964	+688.2	-5.6		n.a.	-15.5	-9.8
	Feb., 1963	+1,065.2	+4.7			+6.5	+0.0
Belleville							
Belleville.....		\$ 149	15.9			n.a.	\$ 70
Percentage change from.....	Jan., 1964	-40.4	-4.8		n.a.		-2.8
	Feb., 1963	+60.2	+1.9				+1.4

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. ^d n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source.⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending February 28, 1964, and March 1, 1963.

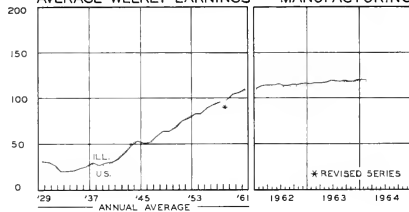
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

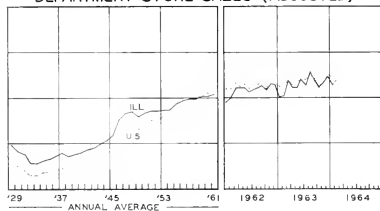
EMPLOYMENT - MANUFACTURING



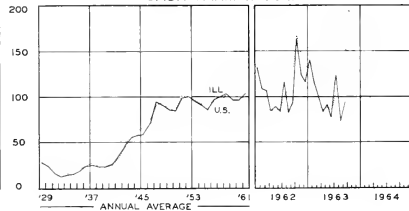
AVERAGE WEEKLY EARNINGS - MANUFACTURING



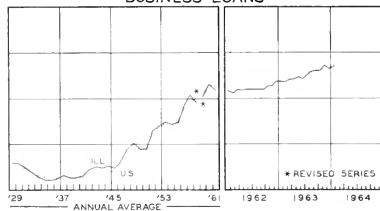
DEPARTMENT STORE SALES (ADJUSTED)



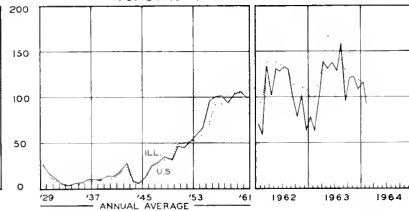
CASH FARM INCOME



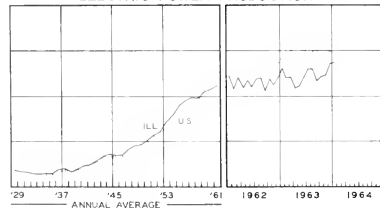
BUSINESS LOANS



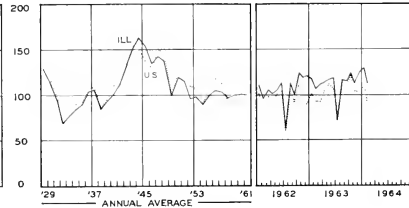
CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



COAL PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

MAY, 1964

NUMBER 5

HIGHLIGHTS OF BUSINESS IN APRIL

Production activity continued at a fast pace in April, with most major industries sharing in the rise from March. Steel production was stepped up somewhat over March, the weekly rate in April hovering around 2.45 million tons. Automobile output set a new record for the month of April; the 786,200 cars produced were nearly 14 percent above the year-earlier mark and 4 percent above the previous record set in 1955. Paper production showed a further increase and is reported to be nearing capacity. Fuel and energy series remained strong. The Federal Reserve Board's index of industrial production was up a full point to 129.2 (1957-59 = 100).

Retail sales for the month were generally disappointing, dropping from a seasonally adjusted \$21.3 billion to \$21.2 billion, but auto dealers at least had no complaints. They delivered 751,000 new cars last month, with their daily rate of sales setting a record for any month.

Progress in Rail-Labor Disputes

Some progress was made in April in the long-standing disagreements between the nation's railroads and the five operating brotherhoods. Under sustained urging from the White House, negotiators for management and labor arrived at the broad terms of a settlement on April 22, with the specific details to be worked out thereafter. The agreement gives seven paid holidays annually to all hourly employees, provides for payment of "suitable lodging" costs and an allowance for meals for workers on away-from-home layovers, sets up a new rule to reduce the number of train crewmen, and allows the railroads somewhat more flexibility in assigning road crews to yard work. One major point of disagreement was left for further consideration by the neutral mediators—the question of crew changes on interdivisional runs.

In separate proceedings, the railroads were enabled to start reducing train crews. These reductions were allowed by the compulsory arbitration board set up by Congress last August, but implementation of their ruling has been postponed by the unions' legal challenges of the law setting up the board. The United States Supreme Court in late April declined to review lower courts' findings that the law was constitutional, thus opening the way for the railroads to start eliminating firemen's jobs on freight and yard engines. In general, the railroads may discharge, with severance pay, workers with less than two years' seniority and must continue to employ firemen with two to ten years' seniority, but may transfer them to compa-

table work. Employees with 10 years' seniority will be retained as firemen but their jobs will gradually be eliminated. Some other crewmen are also affected.

Trade Negotiations Open

Negotiations for the so-called Kennedy Round of tariff reductions have started in Geneva, Switzerland. Representatives of more than 60 countries are participating in the conference, which has been set up under the auspices of the Contracting Parties to the General Agreement on Tariffs and Trade (GATT). The aims of the negotiations, whose success is far from assured, are to reduce tariff restrictions on trade, to reduce or eliminate non-tariff barriers such as quotas, to lessen restrictions on trade in agricultural products, and to promote trade of underdeveloped countries.

These negotiations are the broadest ever held, involving more countries and more products than ever before. They also involve two facets which are extremely sensitive for some countries—tariff disparities (involving disproportionately high tariffs levied by key countries) and the protection of domestic agriculture. Unfortunately it appears at this point that agricultural products may be virtually excluded from negotiations; the Common Market countries seem unable to agree among themselves on agricultural policy and unlikely to make worthwhile concessions to other countries. The United States is participating under the authority of the Trade Expansion Act of 1962, which permits further reductions in our tariffs of up to 50 percent of present levels in return for concessions by other countries relative to barriers against our products. Our representatives are aiming for an across-the-board cut of 50 percent.

Employment Up

Employment rose 1.4 million in April, about 750,000 more than usual for the month, to a total of 69.9 million. Much of the gain occurred among adult women, many of whom took part-time jobs as domestic workers or babysitters. Unemployment dropped 400,000 to 3.9 million, about as expected for the season. Included in the cut in unemployment was a reduction of 100,000 in the number of workers who had been without jobs for 15 weeks or more. The seasonally adjusted rate of unemployment remained at 5.4 percent, despite the large increase in employment, because the labor force also expanded by approximately a million workers.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Summed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Leisure Without Value

Civilization, history tells us, appeared with the development of leisure classes. The great achievements of science and culture required that some men's time be freed from the necessity of grubbing out a mere subsistence.

In the earliest times, slaves or other workers with inferior status produced the economic surplus that made leisure for some possible. As the ability to utilize mechanical power expanded, the possibilities for free time widened. Average hours of work have been declining sharply and steadily during the last century. Great accumulations of productive capital, expanding sources of energy, and the development of "thinking" machines to make processes automatic now promise to eliminate routine work in factories and offices.

The affluence created by the machine was supposed to make leisure available to everybody; but the approach of utopia seems somehow delayed, because progress has not included our ability to use leisure effectively. In philosophical discussions, four uses of free time have been distinguished: aimless relaxation or loafing; amusement or recreation; participation in group activities; and interested pursuit of creative technical or cultural activities. The first of these has commonly been excluded from the definition of leisure. In economics, these distinctions have generally been ignored, and it has been customary to regard "leisure," unspecified as to form, as the alternative to additional income. However, the individual has seldom had control over his working hours, and even casual inspection of how free time is spent suggests that theorizing about the value of leisure needs to be reconsidered.

Neither Desired Nor Accepted

The greatest obstacle to leisure is poverty. People who lack the means cannot go where they wish or do what they want. Amusements usually have to be purchased. Even passively sitting out the hours in front of the TV set requires instalment payments and electricity.

Among all our people, those with the most free time are the unemployed. But they are also the ones who have lost the means of indulging their inclinations. The jobless worker is denied employment, denied recreation, and denied companionship except in play or loose relaxation. He has no way of understanding a complex situation that

denies all he desires. In this kind of idleness, frustration overrides fruition.

Among the employed, the great bulk conform without question to the hours they must work. Many develop special interests and enjoy opportunities afforded by time off, but the division of their time is not commonly a matter of choice. In the general trend over the years, higher incomes and shorter hours do go together. But if it is a trend determined by technology, if gaining the benefits of higher productivity requires a reduction of hours to avoid the growth of technological unemployment, the desires of the individual lack significance.

Some workers specifically reject free time in favor of higher incomes. Workers who hold more than one job are about as numerous today as the unemployed, and their numbers may increase with shorter hours. The moonlighter in effect makes acquisitiveness a standard superior to any values he might achieve on his own initiative.

The really well-to-do are not encumbered by the need for extra income but drive themselves through hours as long as the moonlighter's. They commonly find themselves "too busy to think," and one may sometimes suspect that they keep so busy because they do not want to think. Thus, the rich man also may reject leisure, want no time for higher self-development, and remain satisfied with a show of affluence as the symbol of his superiority. Behind the wheel of his power boat he enjoys a temporary sense of freedom, but it is no more than an elemental form of recreation, the thrill of the moment, and it serves no more than to give him the feeling of renewal that enables him to return once again to his self-imposed toil. His flight into luxury spending shows he can have everything the poor man would like, but he has little time to use or enjoy his armory of possessions. It is in contrast to the wants of the unemployed that the standards for the well-to-do are set.

Paradox of Free Time

It has been said that "the tone of a society is determined by the quality of its leisure." To appraise accordingly what most people do today would seem to lead away from the conclusion that the progress of civilization is continuous. In this topsy-turvy world, the groups that can afford leisure avoid it and those who are idle seek mainly the forms they can ill afford. Neither seeks satisfaction in the "highest" forms of creative leisure. What saves the situation is that certain activities — those of the scientist, the artist, and the writer — are built into the structure of employment. But leisure, as such, instead of being an opportunity, has become a problem.

While automation destroys jobs, the gospel of work is maintained as the sole route to progress. Saving time, like saving money, is viewed as a kind of moral duty. We must build supersonic planes to get more quickly from here to there even though we are already overburdened with business and with unemployment.

The traditional dogma that imposes industry upon us as a way to personal salvation has been complicated by recent theories of growth. These theories insist upon ever-accelerating production. The most sophisticated technology must be used, but the choice automation puts before us is not merely higher output but also shorter hours.

That is why free time is becoming a paradox of modern economic philosophy. Technology opens the door to widespread enjoyment, but the institutions that have been at least partially responsible for its advance seem to be slamming the door shut again.

VLB

FOREST PRODUCTS

Before the first settlers arrived in Illinois, some 14 million acres of forest covered about 40 percent of the State. Most of the southern third and extensive areas along the western and northern borders were forested. By 1940 this area had been reduced to 3.5 million acres. Much of the wood cut was put to use which by present standards would be uneconomical. Walnut now valued for furniture and interior finish was used for beams and fence posts. Oak now used in flooring, cooperage, and finish was used as fuel or simply burned to clear land.

Improved forest management has reversed this trend and today there are well over 4 million acres of forest in Illinois. The southern part of the State remains the most heavily forested, with over 25 percent of the southern 16 counties in forest. The heaviest concentration lies along the Ozark ridge, which extends through Union, Johnson, Pope, and Hardin counties. The western and northern border regions contain most of the remainder.

The two sections of the Shawnee National Forest, one along the Ohio River and one along the Mississippi in the southern part of the State, include most of the government-owned forest, which amounts to only 5 percent of the total. The other 95 percent is privately owned, chiefly by farmers.

Virtually all the timber in Illinois is hardwood. White, red, black, and post oak make up 50 to 60 percent, with nearly 20 percent in white oak alone. Hickory, ash, walnut, elm, soft maple, yellow poplar, and cottonwood are also important.

Primary Industries

Lumber is the most valuable timber product of the State, accounting for \$4.4 million of the \$12.4 million total value of timber products harvested in 1958. This lumber is cut by the state's 314 sawmills, which in 1961 cut 122 million board feet. Of these mills, 141 produce less than 50,000 board feet each year. These are primarily small, portable mills powered by gasoline engines and run by farmers a few days a year. In 1947 there were over 700 of these small mills in the State, but many of them have not been maintained. About 250 mills, or 80 percent of the mills in operation in 1961, cut less than 500,000 board feet. The state's two largest mills each produced over 3 million board feet of lumber in 1961.

The sawmills are located in the same counties in which the forests are concentrated. In 1961 production was over 2 million board feet in 15 counties and in three — Wayne, Union, and Clinton — production exceeded 5 million board feet. Soft maple was the leading type of wood sawed with over 18 million board feet cut. Next were white oak (over 17.8 million board feet), red oak (17 million), black oak (13.5 million), cottonwood (12.5 million), and elm, (10 million). These five species accounted for over 50 percent of the lumber sawed.

Fuelwood production approaches that of lumber in value and exceeds it in volume. However, fuelwood is unique in that about 60 percent of it is produced from dead trees, tops of trees cut for lumber, and scrap. It therefore represents a much smaller reduction of growing

stock than its total volume might indicate. For example, in 1947 fuelwood made up 44 percent of wood cut but caused only a 24 percent decrease in the number of growing trees.

Cooperage for barrel and box manufacture is a third important use of timber. In 1960, 27.4 million board feet of timber, valued at \$1.1 million, were cut by the state's 25 cooperage mills. Nearly all the wood used was white oak, with bur and post oak, elm, and cottonwood accounting for the remainder. The rough staves and heading produced in Illinois are almost all consumed in the State. Consumption was 26.9 million board feet, leaving net exports of only 520,000 board feet.

Vencer production, chiefly for bushel baskets and light boxes, was 9.1 million board feet in 1958. Cottonwood production of 5.4 million board feet made up 59 percent of the total. Walnut was second with 1.5 million board feet; and white oak, poplar, and gum were next in importance. More than 3.4 million board feet, or 38 percent of vencer production, went to other states.

Economic Importance

Primary wood manufacturing provides substantial employment and income in Illinois. In 1958, timber harvesting provided 2,500 jobs, and forest protection and management, 800 jobs. Some 5,800 people were employed in lumber, cooperage, pulpwood, vencer, fuelwood, fence post, charcoal, and mine timber production, and total value of shipments from those industries was \$110.6 million. Secondary timber-using industries such as furniture and construction have also been extremely important sources of income and employment in the State.

Important as these uses are, they do not provide an adequate demand for Illinois-grown wood. The requirements of the secondary industries are 75 percent for softwood and they import 90 to 95 percent of their total consumption. The primary industries simply are not large enough. An indication of the underutilization of forest resources is the fact that only 4,370 cords of pine and various hardwoods were cut out of a total of nearly 33,000 cords available for harvest in the Shawnee National Forest in 1962.

One cause of the problem facing woodland owners is the fact that the hardwoods grown are generally of low quality and are consequently difficult to market. Transporting unprocessed timber over 100 miles to mills is uneconomical. A possible solution currently under study is locating pulp mills in the timber-growing regions. Pulp producers are increasingly turning to this type of wood to meet their needs. It is felt that power, water, transportation, and labor resources are adequate in these areas, and that pulpwood consumption could be increased substantially above its current annual level of \$1.3 million.

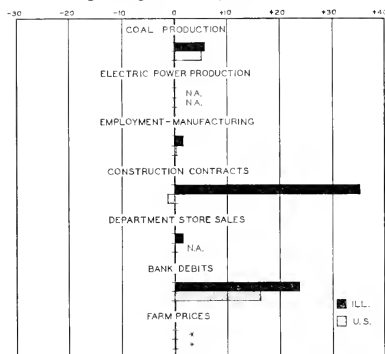
The future of the forest industry in Illinois is uncertain. Reforestation, combined with better forest management, is re-creating timber as a resource, but this is necessarily a long-range project since trees mature slowly. Whether or not more timber-using industry will be attracted to the State is undetermined.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, February, 1964, to March, 1964



* Not seasonally adjusted. N.A. Not available * No change.

ILLINOIS BUSINESS INDEXES

Item	Mar. 1964 (1957-59 = 100)	Percentage change from	
		Feb. 1964	Mar. 1963
Employment—manufacturing ¹	98.4	+ 1.7	+ 2.3
Weekly earnings—manufacturing ¹	122.3 ^a	+ 1.2	+ 4.3
Consumer prices in Chicago ²	105.7	0.0	+ 0.2
Life insurance sales (ordinary) ³	151.1	+12.8	+17.0
Dept. store sales in Chicago ⁴	121.0 ^b	+ 1.7	+ 1.7
Farm prices ⁵	94.0	0.0	+ 1.1
Bank debits ⁶	173.5	+23.7	+16.8
Construction contracts ⁷	125.6	+35.1	+20.1
Electric power ⁸	133.5	+ 5.0	+10.2
Coal production ⁹	119.7	+ 5.9	+ 7.2
Petroleum production ¹⁰	89.0	+ 2.1	- 8.8

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Agency, Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.

* Preliminary. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Mar. 1964	Percentage change from	
		Feb. 1964	Mar. 1963
Personal income ¹	480.4 ^a	+ 0.3	+ 5.6
Manufacturing ¹	436.8 ^a	+ 0.3	+ 6.4
Sales.....	60.2 ^{a,b}	+ 0.2	+ 3.6
New construction activity ¹	22.2	+11.5	+12.2
Private residential.....	17.6	+ 1.9	+13.2
Total public.....	16.2	+14.8	+11.5
Foreign trade ¹	25.1 ^c	- 1.2	- 0.3
Merchandise exports.....	16.1 ^c	- 8.1	- 3.5
Excess of exports.....	9.0 ^c	+13.8	+ 5.9
Consumer credit outstanding ²	68.9 ^b	+ 0.2	+10.9
Total credit.....	53.8 ^b	+ 0.5	+11.9
Business loans ³	44.4 ^b	+ 3.0	+ 9.2
Cash farm income ⁴	30.8 ^c	-25.8	+ 3.1
Indexes (1957-59 = 100)			
Industrial production ²	128 ^a	+ 0.4	+ 5.7
Combined index.....	129 ^a	+ 0.3	+ 6.0
Durable manufactures.....	129 ^a	+ 0.4	+ 5.6
Nondurable manufactures.....	107 ^a	- 0.5	+ 1.6
Manufacturing employment ⁴	101 ^a	+ 0.3	+ 1.8
Production workers.....	102	+ 0.2	+ 0.5
Factory worker earnings ⁴	117	0.0	+ 2.9
Average hourly earnings.....	119	+ 0.2	+ 3.3
Average weekly earnings.....	147	- 1.2	+17.6
Construction contracts ⁵	n.a.		
Department store sales ⁶	108	+ 0.1	+ 1.4
Consumer price index ⁴	100	- 0.1	+ 0.5
Wholesale prices ⁴	95	+ 0.8	- 0.1
All commodities.....	100	- 0.5	+ 1.4
Farm products.....	101	- 0.1	- 0.5
Food.....	99	0.0	0.0
Other.....	107	0.0	+ 0.9
Farm prices ³	77 ^d	0.0	0.0
Received by farmers.....			
Paid by farmers.....			
Parity ratio.....			

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b End of month. ^c Data for February, 1964, compared with January, 1964, and February, 1963. ^d Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1964					1963
	Apr. 25	Apr. 18	Apr. 11	Apr. 4	Mar. 28	Apr. 27
Production:						
Bituminous coal (daily avg.).....	1,497	1,586	1,322	1,306	1,458	1,508
Electric power by utilities.....	17,852	17,590	17,870	17,876	17,972	16,495
Motor vehicles (Wards).....	218	218	210	209	199	186
Petroleum (daily avg.).....	7,652	7,622	7,649	7,575	7,571	7,493
Steel.....	132.3	131.9	131.4	131.4	129.2	136.8
Freight carloadings.....	572	581	530	519	528	577
Retail sales.....	4,858	4,845	4,696	4,804	4,892	4,647
Commodity prices, wholesale:						
All commodities.....	100.4	100.3	100.3	100.5	100.5	99.7 ^a
Other than farm products and foods.....	101.1	101.1	101.0	101.1	101.2	100.4 ^a
22 commodities.....	96.4	97.0	95.9	95.5	94.2	93.4
Finance:						
Business loans.....	38,015	38,252	37,964	38,308	38,172	34,996
Failures, industrial and commercial.....	276	289	288	267	299	312

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for April, 1963.

RECENT ECONOMIC CHANGES

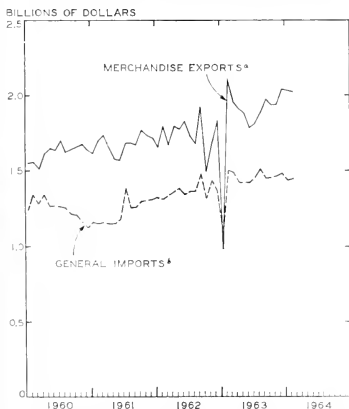
Trade Balance Improves in 1963

The balance of international payments during 1963 continued to show a net deficit but because of improvements in both trade and capital flows the total deficit declined \$270 million from the 1962 total to \$3.3 billion. During the second half of the year the adverse balance on all "regular transactions" fell to a seasonally adjusted annual rate of \$2 billion after averaging \$4.6 billion in the first half.

The improvement in the second half of 1963 reflected the decline in the outflow of private capital, from a \$5 billion annual rate in the first half to less than \$3 billion in the second, and an enlargement of the trade surplus during the second half of the year (see chart). During the last six months of 1963 the trade surplus increased \$600 million in response to stronger foreign demand for industrial supplies and machinery and increased sales of grain. Accordingly, exports rose by almost \$1.8 billion in the second half from their average annual rate of \$21 billion in the first half.

Much of the advance in exports during the year reflected an unusual coincidence of strong cyclical movements in most major industrial nations. In Great Britain and the Common Market nations industrial production rose 8 percent from the first to the last quarter, and in Japan and Canada increases in industrial activity began in April and August and continued through the end of the year. Agricultural exports reached a seasonally adjusted annual rate of \$6 billion during the second half of the year, 11 percent above the first half and 16 percent above the total for 1962, as Europe and Japan took extra quantities of wheat, tobacco, and cotton.

MERCHANDISE EXPORTS AND IMPORTS



* Total exports less Department of Defense shipments of grant-aid military supplies and equipment under the Military Assistance Program.

† Imports for immediate consumption plus entries into bonded warehouses.

Source: U.S. Department of Commerce.

This favorable trade balance was achieved in spite of a strong rise in imports during the first half of the year. Manufacturers' demands for imported raw materials declined during the second half. Since July, imports have remained fairly stable and as a result the ratio of imports to GNP has fallen back to 2.7 percent after rising to more than 3 percent in the first half of the year. Advances in imports during 1963 were concentrated in consumer goods, particularly automobiles (which were 15 percent greater in value than in 1962), capital equipment, and some types of steel. A rise in the value of food imports reflected mainly a higher price for sugar.

Gross National Product

The nation's output of goods and services rose to a seasonally adjusted annual rate of \$608.5 billion in the first quarter of 1964, according to preliminary estimates. The gain of \$8.4 billion over the previous quarter was somewhat smaller than the prior quarterly advance of \$11.6 billion, largely as the result of a slowing in inventory accumulation. Even with a rise of \$8 billion in disposable income, the rate of saving fell from 7.5 percent in the fourth quarter of 1963 to 7.4 percent of disposable personal income, but this was still slightly higher than the 7.3 percent recorded for the entire year of 1963.

GROSS NATIONAL PRODUCT OR EXPENDITURE (Seasonally adjusted, billions of dollars at annual rates)

	1st Qtr.* 1964	4th Qtr. 1963	1st Qtr. 1963
Gross national product.....	608.5	600.1	571.8
Personal consumption.....	388.0	379.9	367.4
Durable goods.....	55.5	53.6	50.6
Nondurable goods.....	172.5	168.7	165.3
Services.....	160.0	157.7	151.4
Domestic investment.....	85.0	87.1	77.8
New construction.....	49.7	49.2	43.7
Producers' durable equipment.....	32.3	32.5	29.0
Change in business inventories.....	3.0	5.4	5.1
Nonfarm inventories only.....	2.8	5.1	4.3
Net exports of goods and services.....	6.5	5.4	3.6
Government purchases.....	129.0	127.7	123.0

INCOME AND SAVING

National income.....	n.a.	489.1	466.7
Personal income.....	479.1	473.0	453.9
Disposable personal income.....	418.9	410.9	394.5
Personal saving.....	30.9	31.0	27.1

* Preliminary.

Sources: U.S. Department of Commerce and Council of Economic Advisers.

Corporate Profits Up

Corporate profits before taxes in the closing quarter of 1963 rose to a record annual rate of \$54.3 billion. This was an increase of \$2.1 billion over the previous high reached in the third quarter.

For the entire year 1963, profits before taxes, excluding inventory gains and losses due to price changes, totaled \$51.5 billion, 10 percent above 1962's previous record. Taxes took nearly half of total corporate profits, leaving after-tax income of \$27.1 billion compared with \$24.6 billion in 1962 and \$21.8 billion in 1961. A further gain is anticipated during the current year because of the cut in corporate tax rates from 52 to 50 percent and because of an expected rise in output and sales. If profits do increase in 1964, it will mark the first time since the war that this has occurred three years in a row.

CIGARETTE ADVERTISING AND THE NATION'S WELFARE

JULIAN L. SIMON, Assistant Professor of Advertising

The Federal Trade Commission is now holding hearings about whether cigarette companies should be required to post a "danger to health" warning on packs of cigarettes and in advertisements. These hearings are an outgrowth of the recent report by the Surgeon General on the health hazards of cigarette smoking.

Some individuals and groups, including Senator Maurice Neuberger and Consumers Union, favor the proposed regulation. Some want cigarette advertising prohibited completely. However, no responsible person has suggested outlawing the manufacture or sale of cigarettes themselves.

People who oppose the warning proposal and the ban on advertising base their opposition on grounds of legality as well as of economics. This article will consider only the economics of a warning requirement or a ban. It will not consider other economic alternatives such as an increase in cigarette taxes.

I shall discuss the possible effects on cigarette use, and the consequent economic impacts, of these two proposals on the groups that have a stake in what happens. Mostly, I shall talk about the ban on advertising, because its effect is better understood. The effect of a warning requirement would probably be much less than an advertising ban, but of the same general nature.

Effect on Cigarette Consumption Rate

Opponents of a warning or ban will say that forbidding cigarette advertising, or requiring a danger warning, will have "practically no effect" on consumption. Supporters of the warning, however, argue that advertising has a "substantial" effect in influencing people to start smoking, and in keeping them smoking. Where is the truth?

It is perfectly clear that advertising has the power to influence the purchase of particular brands of cigarettes. The \$220 million spent annually for cigarette advertising is proof-positive of that. But we are not interested in the power of advertising to shift smokers from one brand to another. We want to know how cigarette advertising as a whole starts people smoking or keeps them smoking.

Neil Borden examined the role of cigarette advertising in the astounding growth of cigarette smoking starting about 1900, when the annual per capita consumption of cigarettes was 49. By 1962 the rate had risen to 3,958 cigarettes per capita. Borden did not say that advertising caused the rise in cigarette consumption. He argued that if the public had not been ready to take up cigarette smoking, advertising could never have caused such a large increase in consumption. Nevertheless, Borden concluded that advertising was an important factor in the size and speed of increase in cigarette smoking.

But we want to know the effect of advertising *now*, when cigarette smoking is a very prevalent habit. We want to know what would happen if advertising were banned, or if a warning were required.

Robert Basmann carried out an intricate statistical study of the rise and fall in cigarette advertising from year to year in the United States, and its apparent effect on cigarette consumption. He found that for each 1 percent change in total cigarette advertising, the number of cigarettes smoked changed 1/20 of 1 percent. In other words, the consumption of cigarettes is affected by the amount of advertising, but it takes a big change in the

amount of advertising to make much of a difference in consumption. This is typical of an industry once it has become well established, but it may also result from the degree to which the smoking habit takes hold of people and the fact that nothing else is a good substitute for smoking.

What would happen if all cigarette advertising were cut off? An extension of Basmann's finding would suggest that if there had been no cigarette advertising last year, consumption would have been about 5 percent less than it was. If the ban on advertising continued, we might expect further decreases in the amount of consumption each year, but the absolute decrease would be less each year. These predictions are subject to many technical reservations, and they go far beyond the data. But they are the best that we can do at this time.

A required danger-warning in the ads would be a type of negative advertising. We cannot estimate how much the warning would cut smoking, but certainly the effect would not be as drastic as a ban on advertising, or no firm would continue to advertise. Our inability to come up with any better prediction is testimony to how little scientific knowledge we have about the effect of different forms of advertising copy. But it should certainly be possible to pretest ads that contain warnings, just as other ads are pretested, in order to obtain an estimate of the effect of a warning.

Now let us estimate the health effect of an advertising ban and the resulting reduction in cigarette consumption:

(1) For each cigarette smoked, someone's life is shortened by 5 to 9 minutes. We shall figure 7 minutes per cigarette.

(2) About 523 billion cigarettes were smoked last year. A decrease of 5 percent in consumption for just one year would mean an increase of human life in the United States of about 183 billion minutes, or 349,000 years of life. Remember, this is the amount of lifetime increased by a decrease of 5 percent in smoking for just one year.

(3) People who are kept from starting smoking will live, on the average, 5 years longer than if they had started smoking.

Effect on Employment and Local Economies

An estimated 225,000 people make a substantial part of their living in tobacco agriculture, earning approximately \$600 million last year, of which about \$450 million came from cigarettes. Some 31,000 factory workers earned \$150 million last year from cigarette manufacture. In total, then, cigarette purchases put about \$600 million into the pockets of workers and farmers. How will a ban or a warning affect them?

Notwithstanding the frantic reactions of Southern state officials, however, a drop in consumption would have no immediate effect on farm earnings, because of the government subsidy program. Unless the government removed the subsidy, the taxpayers at large, rather than the farm population, would take the loss. But let's assume that the subsidy would be cut.

If the subsidy were cut, the effect of a loss in earnings would probably be worse than the figures show, because the effect would be concentrated in a few states that are already economically backward. Many tobacco farmers are already poor and would find it hard to find new jobs.

**Consumption of Tobacco Products,*
Selected Years, 1900 to 1962**

Year	All tobacco (Pounds)	Cigarettes (number)	Cigars (number)	Pipe tobacco (Pounds)	Chewing tobacco (Pounds)	Snuff (Pounds)
1900	7.42	49	111	1.63	4.10	0.32
1910	8.59	138	113	2.58	3.99	.50
1920	8.66	611	117	1.96	3.06	.50
1930	8.88	1,465	72	1.87	1.90	.46
1940	8.91	1,828	56	2.05	1.00	.36
1950	11.59	3,322	50	.94	.78	.38
1960	10.97	3,888	57	.59	.51	.29
1961	11.15	3,986	56	.59	.51	.27
1962	10.85	3,958	55	.56	.50	.26

* Per person aged 15 years and over in the United States.
Source: U.S. Department of Agriculture, Economic Research Service.

For example, North Carolina is an agricultural state and almost half of its farm income comes from tobacco.

Using our estimates above, employment and earnings would be cut by 5 percent at most during the first year of an advertising ban. In subsequent years, the further cut in jobs and/or dollars would be less. I say "5 percent at most" because there is good reason to believe that an important proportion of smokers who quit smoking cigarettes, or young people who never start, would use other forms of tobacco instead. The accompanying table shows that cigarettes largely replaced other forms of tobacco and did not create much new demand for tobacco. To the extent that smokers switch to pipe tobacco, cigars, chewing tobacco, and snuff, the damage to tobacco farming would be reduced, even though cigarette tobacco is a more expensive product than other types of tobacco.

Furthermore, some or many tobacco workers who are thrown out of work would get other jobs, so we are over-estimating greatly when we assume that the equivalent of lost cigarette-industry wages would be lost to the economy as a whole. But we assume the worst, or close to it, for the sake of argument. Later we shall look at the potential effects on employment again, when we consider the overall picture.

Effect on Cigarette Companies

To understand the effect of a ban or a warning requirement on the cigarette companies, we must first understand the nature of advertising as a business investment.

When a firm spends a dollar in advertising a brand of cigarettes this year, the advertising bought with that dollar increases cigarette sales this year. But it also increases cigarette sales next year, and the year after, and in subsequent years. Customers get into the habit of buying a given brand, a habit that may continue for many years. To say it another way, a dollar of advertising may create some goodwill or brand-loyalty that persists long into the future, though each year the effect of that single dollar of advertising is less than the year before. Cigarette advertising is really an investment, just like an investment in a new machine that will produce for many years after it is bought.

Lester Telser studied the pre-World War II cigarette market in considerable detail. He found that only 15 to 20 percent of the advertising investment is used up in the year in which the advertisements appear. This means that for each dollar of sales created in the advertising year, much more than \$3 of sales will be created in subsequent years. (However, because of the chaos in the postwar cigarette market, investment is probably used up faster than Telser's estimate.)

Therefore, even if all cigarette advertising were stopped tomorrow, the established cigarette brands would

continue to sell well for many years, though at continually diminishing rates. During that time the cigarette companies would be recouping the investments they have already made. Furthermore, since all the firms would have to stop advertising, the investments already made would not be used up as fast, which would give the cigarette companies a better return on their invested dollars than they expected to earn when they made the investments.

The total effect, then, would be that in future years the sales of any brand would gradually decrease. But the gross profits on a brand would be at a very high rate for a while, because the firm would not be making any further investment in advertising. The cigarette companies would have a fine opportunity to "milk" their brands for profit.

The cigarette companies already know how to milk a brand after they cease advertising it. For example, substantial quantities of non-filter Old Golds have been sold in the last couple of years despite the fact that Lorillard practically quit advertising them.

If advertising were stopped, the cigarette companies would generate large amounts of cash each year, which they could either liquidate to stockholders or use to diversify. The former is not likely because of our tax structure and because no executive likes to liquidate himself out of a job. In the latter case, much of the capital would go to create new jobs in other industries.

Either way, I would guess that a cigarette stock would have a very solid value if advertising were banned. The same type of predictions would apply if a warning were required, but the effects would not be as sweeping.

Effect on Advertising Media

The advertising media have already been hit by the Surgeon General's report. Some radio and television stations have voluntarily restricted cigarette advertising to certain hours of the day, while others have cut it off completely. Some magazines and papers have always refused to accept tobacco advertising, notably the *Reader's Digest*. And now the cigarette advertisers have set up an authority to regulate copy and media.

A warning requirement would not hit the media as hard as a ban, of course. But a warning that really affected consumption would make advertising less profitable for the firms, and they would therefore advertise less.

Television would lose more than \$120 million in advertising revenue, about 7 percent of its total revenue last year. But that would not represent a dead loss to television stations and networks. Television time is limited, especially on networks, and the time is therefore rationed among potential advertisers. If cigarette advertising were banned, the television time could be sold to other advertisers, though at a somewhat lower price.

Television stations are charged with the public interest to a greater extent than are other communications media, because they are given a free franchise for a channel. This franchise gives them some monopoly power. Therefore, the television people should be particularly slow to complain about the loss of cigarette advertising revenue if it is in the public interest.

Radio would lose an estimated \$20 million in cigarette advertising revenue, less than 3 percent of its total revenue. Other advertisers would not replace this revenue. But radio stations also have a free franchise granted by the public.

The \$34 million loss to general and farm magazines would be a complete loss, about 7 percent of their total revenue. The magazines would not find other advertisers to replace cigarettes, and some magazines would feel a

considerable strain. But since it would hit them all, they could all be expected to reduce their editorial cost somewhat, without fear of losing advertisers or circulation to competition. This might cushion the impact somewhat.

The \$18 million lost to newspapers would be only one-half of 1 percent of their advertising revenue.

Effect on Advertising Agencies

The advertising-agency business would take a beating if cigarette advertising were banned. Agencies would also be hurt if a warning were required, because in that case total cigarette advertising would decrease. Madison Avenue-type agencies would lose approximately \$200 million billing of their total of perhaps \$4 billion, about 5 percent of their total. (Actually, only 15 percent of the \$200 million — \$30 million — stays with the agencies. The rest goes to the media.) Perhaps a thousand copywriters, account executives, and other agency people would be scurrying about looking for jobs, and the job market would be glutted for a while.

It is interesting to note that some major advertising agencies have said, after the Surgeon General's report came out, that they would refuse to handle cigarette advertising, because they now consider it immoral. Expectedly, none of those agencies now has a cigarette account. But their statements do mean something, nevertheless.

Effect on the Economy as a Whole

The total cigarette market is about \$6.8 billion. Excluding taxes, the industry accounts for \$3.6 billion, much less than 1 percent of the gross national product.

We have some evidence that Americans tend to spend a fairly constant percentage of their total yearly income, year after year. This suggests that a decrease in cigarette sales would lead to a compensating increase in other spending. If so, the effect on the economy as a whole would be lessened. Exactly how much the first impact would be, we cannot say. It would be somewhere between no effect and \$180 million (5 percent of \$3.6 billion).

On the other side of the ledger, the "multiplier effect" would magnify the ill effects of whatever decrease in spending does take place, by a factor of 2 or 3. This effect is due to the spending of money again and again by people in the business chain. In other words, if people saved half of the \$180 million drop in cigarette sales, the drop in national income would then be between \$180 million and \$270 million.

In any case, a small yearly decrease in cigarette sales and cigarette advertising, made even smaller by a shift to other forms of tobacco, would not be even a drop in the bucket for the economy as a whole.

Cigarette smoking does affect the federal economy and the economies of the states and some cities, too, by way of taxes paid on cigarettes. Federal excise taxes amount to \$2 billion, state taxes are above \$1 billion, and municipal taxes are \$40 million. These taxes are important to the tax-collecting bodies. But at first the loss would only be 5 percent of taxes that represent 2 percent of total government revenues. Furthermore, if taxes are not collected one way, they can be collected another way, at the same total cost to the public.

On the other hand, cigarettes may cost the economy far more than they contribute. Louis Lublin, a retired vice-president of Metropolitan Life Insurance, estimates that cigarettes cost the nation \$10 billion annually in the lost services and earnings of men killed prematurely by

cigarettes. My own estimate is a loss of more than \$4 billion, based on 1.1 years of life lost by the average smoker before the age of 65, half of the men in the United States being smokers, and an annual payroll of \$322 million.

In sum, then, we must balance the expected effects on health against the expected effects on employment and earnings.

Putting together our previous estimates, we can say that it takes a reduction of 880 cigarettes to produce a drop of one dollar in tobacco-worker's earnings. And a drop of that many cigarettes means that someone's life expectancy goes up by $880 \times 7 \text{ minutes} = 104 \text{ hours}$. The drop in both consumption and earnings would be less in subsequent years. But they would stay in step with each other, so the same type of dollars-for-hours-of-life relationship would hold.

When we consider the \$4 billion to \$10 billion in earnings lost each year by men killed prematurely by cigarettes, it is clear that the country will gain more in live men's earning power than it will lose in revenue. And in fact, the gain in earning power for people kept alive by not smoking would be 10 to 20 times the loss in earning power of tobacco-industry workers.

Then, too, deaths caused by smoking decrease consumption spending. In the 104 hours lost by each dollar of cigarette-industry earnings, a live person would spend more than \$20. This consumption spending is important to the economy.

This, then, is the decision that will eventually be made, if our assumptions are correct. Should the nation decrease employment temporarily to gain 104 hours of life per dollar of earnings lost? Should the nation reduce the tobacco industry revenue, gaining two dollars in earnings from live men for each dollar decrease in tobacco industry revenue, and a gain of \$10 to \$20 in earnings of men kept alive for each dollar of tobacco-workers' earnings lost?

Conclusion

There is much to gain, little to lose, by stopping the advertising of cigarettes. My chain of reasoning goes like this:

- (1) Advertising *could* be banned without prohibiting smoking;
- (2) A ban on advertising would bring about no boom-or-bust noneconomic ill effects and the economy's overall vitality would hardly be affected;
- (3) A prohibition on cigarette production could have harsh repercussions, as with the prohibition of alcohol in the twenties;
- (4) There are other commodities (e.g., contraceptives, medical services, liquor on radio and television, and many others) that are sold but cannot be advertised, so this would be no new precedent; and
- (5) Therefore, let's ban cigarette advertising.

Postscript

If the nation wishes to decrease cigarette consumption, raising the tax on cigarettes is an obvious alternative or additional measure that might be taken. There is no doubt that fewer cigarettes will be bought if the price is higher. However, the tax would take a larger proportion of some people's income than of others. And if the price of cigarettes goes up, people will smoke the butts closer to the end. The more of a cigarette that is smoked, the more dangerous it rapidly becomes. So an increase in taxation may not be a good alternative solution.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Result of Manpower Training

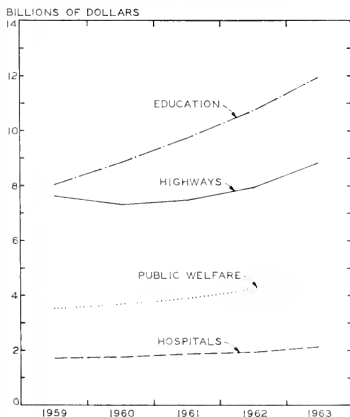
By the end of 1963 about three-fourths of the persons originally enrolled in training programs had successfully completed institutional training under the Manpower Development and Training Act (MDTA). Of the 27,459 graduates, 70 percent has successfully found employment. Almost 9 out of 10 of those who had obtained employment found work in the field of their training. During the year the percentage of graduates who obtained employment remained at a fairly consistent 70 percent of the enrollment figure. According to the Department of Labor many of the 8,200 graduates who reportedly had not obtained employment when these figures were released have since found jobs or will find jobs in the near future.

A study of the 9,000 dropouts disclosed that about 60 percent were men; 26 percent of the original men enrollees dropped out whereas only 19 percent of the original women enrollees quit. Among the factors which contributed to trainees' decisions to terminate training were personal reasons, such as difficulties in adjusting to a learning situation, inability to support themselves and their dependents on the training allowance, problems in arranging for supervision of children, and job offers which had to be weighed against the chances for a future and better job resulting from the training.

Expenditures of State Governments

The general expenditures of state governments rose 10 percent in 1963 to a record total of \$34.4 billion. Education outlays were nearly 11 percent greater than in 1962 and accounted for the largest share of state spend-

STATE GENERAL EXPENDITURES FOR SELECTED FUNCTIONS



Source: U.S. Bureau of the Census, *Summary of State Government Finances in 1963*, G-SF63-No. 1.

ing, \$11.9 billion. Of this \$11.9 billion, state fiscal aid to local governments for support of public schools amounted to \$7.0 billion, 8 percent more than a year earlier. Expenditures for state-supported institutions of higher learning also increased, from \$3.6 billion to \$4.2 billion.

Highway expenditures totaled \$8.8 billion, 11 percent more than in the previous year as purchase of land for and construction of the interstate system moved into high gear. Expenditures for public welfare continued their climb, as indicated in the chart, increasing 8 percent in 1963 to a total of \$4.6 billion. Of this amount, \$1.9 billion was transferred from the state to local agencies for welfare services. In turn, the states received \$2.7 billion from the federal government for welfare programs. State outlays for hospitals rose 7 percent to \$2.1 billion in 1963.

New Labor Publications

The United States Department of Labor has started publication of two new periodicals, *Unemployment Insurance Review* and *Employment Service Review*, to replace the *Employment Security Review* and *The Labor Market and Employment Security*, both of which were discontinued by their December, 1963, issues.

The *Unemployment Insurance Review* features articles dealing with various aspects of the unemployment insurance program and information on pertinent research activities and brief summaries of state judicial and administrative decisions on appeals. Also included are brief analyses of economic trends and monthly reports of unemployment insurance programs and other income-maintenance programs. The *Employment Service Review* contains articles on employment service operations in the area of manpower development and utilization, including articles on occupational developments, manpower trends, community and industry surveys, and training.

Both publications may be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C., 20402. The subscription price of each new journal is \$3.00 a year or 30 cents a copy.

Family Personal Income Rises

The total personal income of families and unattached individuals reached \$441 billion in 1963, an advance of 5 percent over 1962. The average family income rose \$250 to \$7,510, resulting in a further upward shift of family units along the income scale. In 1963 the number of consumer units earning less than \$4,000 declined 1.1 million, while the total number of consumer units actually rose 800,000 over 1962.

The largest concentration is found in the income class of \$4,000 to \$5,999, which contains approximately 20 percent of all consumer units. This modal class and the classes below and above it (\$2,000-\$3,999 and \$6,000-\$7,999) account for almost 56 percent of all units.

With the rise in family personal income and the upward shift of units along the income scale, it is interesting to note the growing percentages in the income classes above \$6,000. The percentage of consumer units having incomes above \$6,000 has increased from 17 percent of 44.7 million consumer units in 1947 to 49 percent of 58.7 million consumer units in 1963. During the same period of time the percentage of consumer units living on less than \$4,000 has declined from 63 percent to 29 percent.

LOCAL ILLINOIS DEVELOPMENTS

Higher Tollway Revenues Expected in 1964

The Illinois State Toll Highway Commission reports that fare revenues from commercial and passenger vehicles on the Illinois Tollway totaled \$26.8 million in 1963. This shows an overall decrease of about 1 percent since 1962. As shown on the chart, the Tollway achieved a steady rate of growth from the opening of the completed network in 1959 through 1962. Lower revenues for the first three quarters of 1963 are attributed to the opening of the Dan Ryan (South) Expressway in mid-December, 1962. This route diverted a considerable amount of traffic from the central and southern sections of the Tri-State Tollway.

A new schedule of charges was put into effect October 1, 1963, to increase revenues and to offset a lower absolute volume of traffic. For the first three months of 1964, revenues totaled \$5.9 million, an increase of more than 23 percent over the same period of 1963. About \$31 million in toll revenues, or a gain of about 16 percent, is expected for 1964.

Illinois Economic Study

The Illinois State Chamber of Commerce has recently issued the first of its series of reports pertaining to the economic growth of Illinois. This first report studies the economic characteristics of the State and the attitudes of executives toward doing business here. A strong economic position for Illinois is based upon economic diversification, lower unemployment relative to the nation, a favorable union environment and competitive labor costs, and a high sales potential derived from the fact that Illinois commands a sizable percentage of the national consumer and industrial markets.

A mail survey replied to by 722 firms has indicated a generally favorable outlook for economic growth. Over half of the firms expect to hire more workers and less

than 3 percent anticipate decreased employment. Regional variations in employment gains are expected. Good labor relations were reported by about 84 percent of the firms. Location factors are shown to be favorable on the whole. Increases in plant facilities are anticipated by nearly 63 percent of the firms and most of this expansion is expected to occur within Illinois. In addition, favorable community assets for industrial location and expansion can be used advantageously by local development groups.

Civil Service Salary Program Expansion

An expansion of the 1963-65 wage and salary program, announced recently by Governor Otto Kerner and made effective on March 1, 1964, has increased monthly salary ranges for about 28,000 state and civil service employees. The revision is intended primarily to improve the competitive position of the State vis-à-vis private sources of employment for personnel, and especially for persons in technical and professional capacities. Two other major changes in the program are largely administrative: authority to make merit increases in salaries has been decentralized to the individual agencies and more flexibility has been provided by the elimination of salary steps within pay grades; payroll processing procedures have also been streamlined. The revision in salary schedules does not affect approximately 12,000 employees who are hired irregularly and are paid on an hourly basis.

Salary changes have been made according to individual pay grades. Maximum monthly salaries have been increased, while minimum salaries remain the same. Although changes vary somewhat according to pay grade and occupational grouping, the average spread between minimum and maximum salary figures has been widened from 21 to 39 percent.

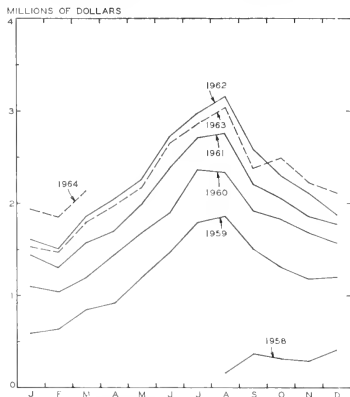
Chicago Area Has Fewer Jobless

The Illinois Department of Labor reports that the unemployment rate for the Chicago area has remained below the national rate for more than a decade. In 1952, during the Korean War, the rate for the area was 2.1 percent, compared with 3.1 percent for the United States. As of 1963, the rate was 4.3 percent for Chicago and 5.7 percent for the nation.

This lower unemployment rate has prevailed despite a large lag in the rate of job creation. From 1952 to 1963, average employment in Chicago showed a gain of slightly more than 6 percent compared with a gain of 17 percent for the nation. The most significant factor in the lower Chicago rate of gain is the 7.6 percent decline in manufacturing jobs that took place over this period. Sizable declines also took place in the fields of construction, transportation, communications, and public utilities.

Three factors help to explain the lower rate of unemployment for the Chicago area. First, young people have been encouraged to remain in school for longer periods, delaying their entry into the labor force. Second, a lowering in the number of married women on employment rolls is attributed mainly to the decline in manufacturing jobs. Third, area workers have more frequently retired at 65 years of age, generally with more extensive coverage by Social Security and private pension plans. These influences tend to minimize the unemployment rate, but they indicate that a considerable job expansion is needed. Young workers can be expected to flood the labor market during the coming years.

ILLINOIS TOLLWAY REVENUES



Source: Illinois Toll Highway Commission.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1964

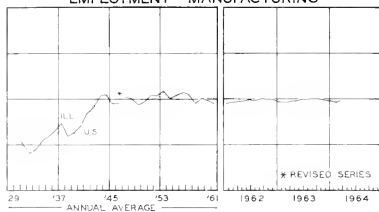
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000,000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS.							
		\$36,787 ^a	1,540 0 ^a			\$28,848 ^a	\$19,976 ^a
Percentage change from.....	Feb., 1964.....	+37 6	+1 3		+20	+23 7	+3 6
	Mar., 1963.....	+3 5	+4 0		+5	+16 8	-0 8
NORTHERN ILLINOIS							
Chicago							
		\$22,797	1,101 2			\$27,058	\$17,041
Percentage change from.....	Feb., 1964.....	+21 9	+0 7		+19	+24 8	+4 2
	Mar., 1963.....	-6 1	+2 2		+6	+17 2	-1 7
Aurora							
		\$ 1,420	n.a.			\$ 97	\$ 223
Percentage change from.....	Feb., 1964.....	+189 8				+6 6	+7 7
	Mar., 1963.....	+73 4				+3 2	+15 5
Elgin							
		\$ 1,476	n.a.			\$ 57	\$ 192
Percentage change from.....	Feb., 1964.....	+367 1			n.a.	+3 6	+1 6
	Mar., 1963.....	+178 5				+5 6	+29 7
Joliet							
		\$ 840	n.a.			\$ 101	\$ 138
Percentage change from.....	Feb., 1964.....	+11 7			+28	+4 1	-0 7
	Mar., 1963.....	-23 3			+5	+3 0	+2 2
Kankakee							
		\$ 324	n.a.			n.a.	\$ 73
Percentage change from.....	Feb., 1964.....	+49 3			n.a.		-7 6
	Mar., 1963.....	-54 3					-11 0
Rock Island-Moline							
		\$ 2,526	51 0 ^b			\$ 144 ^b	\$ 260
Percentage change from.....	Feb., 1964.....	+533 1	-0 6		n.a.	+5 9	+18 7
	Mar., 1963.....	+62 0	+15 9			+5 9	+10 6
Rockford							
		\$ 1,253	68 4 ^c			\$ 241	\$ 334
Percentage change from.....	Feb., 1964.....	-0 8	-1 9		+14 ^c	+4 8	+1 5
	Mar., 1963.....	+1 1	+2 5		+5 ^c	+9 0	-2 1
CENTRAL ILLINOIS							
Bloomington							
		\$ 177	14 1			\$ 112	\$ 181
Percentage change from.....	Feb., 1964.....	-27 2	+2 2		n.a.	+16 6	-2 2
	Mar., 1963.....	-49 4	-3 4			+14 2	+5 8
Champaign-Urbana							
		\$ 964	21 8			\$ 108	\$ 186
Percentage change from.....	Feb., 1964.....	-15 3	-4 0		n.a.	+5 9	+1 6
	Mar., 1963.....	+49 9	+11 2			+18 6	+9 4
Danville							
		\$ 253	20 9			\$ 56	\$ 96
Percentage change from.....	Feb., 1964.....	+110 8	-5 9		+26	+3 7	+20 0
	Mar., 1963.....	-39 6	+6 1		-2	+1 8	-0 0
Decatur							
		\$ 1,011	44 8			\$ 150	\$ 167
Percentage change from.....	Feb., 1964.....	+160 6	-3 9		+23 ^c	+7 9	+3 7
	Mar., 1963.....	+59 5	+15 8		-2 ^c	+10 3	+9 2
Galesburg							
		\$ 87	13 6			n.a.	\$ 50
Percentage change from.....	Feb., 1964.....	-56 9	+2 3		n.a.		-13 8
	Mar., 1963.....	+148 6	+12 4				-3 8
Peoria							
		\$ 932	76 3 ^c			\$ 303	\$ 330
Percentage change from.....	Feb., 1964.....	+91 8	+29 5		+27	+14 8	-6 2
	Mar., 1963.....	+85 7	+12 9		-1	+19 3	-2 1
Quincy							
		\$ 439	16 2			\$ 63	\$ 100
Percentage change from.....	Feb., 1964.....	+64 4	-3 6		n.a.	+12 5	+12 3
	Mar., 1963.....	+240 3	+4 5			+12 5	+6 3
Springfield							
		\$ 1,659	50 1			\$ 170	\$ 385
Percentage change from.....	Feb., 1964.....	+231 1	+0 8		+28 ^c	+14 1	-13 5
	Mar., 1963.....	+27 6	+8 7		+4 ^c	+14 1	-1 8
SOUTHERN ILLINOIS							
East St. Louis							
		\$ 22	17 6			\$ 134	\$ 98
Percentage change from.....	Feb., 1964.....	-35 3	-4 3		n.a.	+14 5	+6 5
	Mar., 1963.....	-52 2	+2 9			+7 2	+7 7
Alton							
		\$ 143	27 8			\$ 54	\$ 51
Percentage change from.....	Feb., 1964.....	-86 7	+4 1		n.a.	+10 2	+10 9
	Mar., 1963.....	-23 9	+4 5			+8 0	+4 1
Belleville							
		\$ 464	16 3			n.a.	\$ 71
Percentage change from.....	Feb., 1964.....	+211 4	+2 5		n.a.		+1 4
	Mar., 1963.....	+22 4	+13 2				+2 9

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source.⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending March 27, 1964, and March 29, 1963.

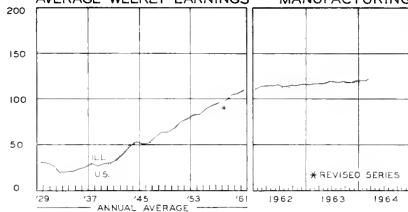
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

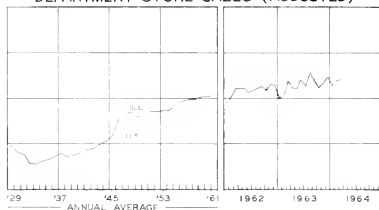
EMPLOYMENT - MANUFACTURING



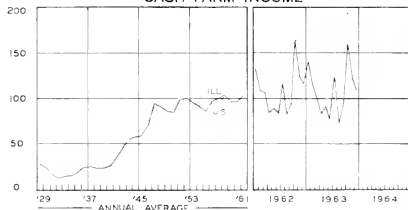
AVERAGE WEEKLY EARNINGS - MANUFACTURING



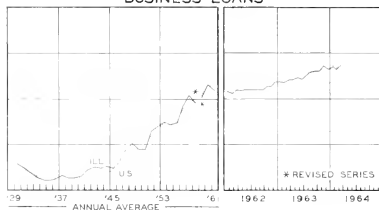
DEPARTMENT STORE SALES (ADJUSTED)



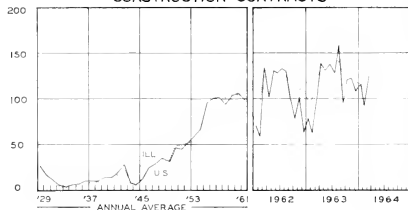
CASH FARM INCOME



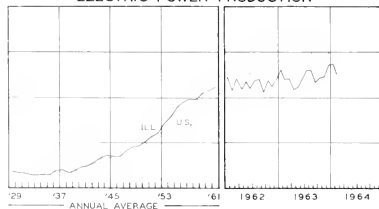
BUSINESS LOANS



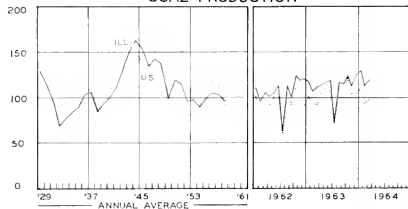
CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



COAL PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

JUNE, 1964

NUMBER 6

HIGHLIGHTS OF BUSINESS IN MAY

Business activity was well maintained in May. Steel production rose slightly each week early in the month to just over 2.5 million tons of ingots, then dropped back somewhat the last week. Output was at the highest level since June of last year, when steel stocks were being built up in anticipation of a strike. Automobile manufacturers continued to set records, turning out 725,300 cars for a new May high. Output of the Big Three ran well ahead of May, 1963, and for the first five months posted gains ranging from 10 percent to 17 percent compared with a year ago. Manufacturing as a whole showed a minor increase over April. Activity in the mining and utility industries was up about 1 percent. The Federal Reserve Board index of industrial production rose from 129.6 to 130.3 (1957-59 = 100), another new record.

Retail sales rose to \$21.7 billion in May, after seasonal adjustment, surpassing the previous record set in February and moving 7 percent over the year-earlier figure. Sales of nondurables were reported to be particularly strong.

The value of new construction in May was estimated at \$5.7 billion, 11 percent above the previous month's figure and 10 percent higher than the May, 1963, value. The change from April corresponded to the expected seasonal advance. Outlays in the three major categories were all higher than in May last year, but private non-residential building and public construction showed much larger gains than private residential construction—17 percent and 16 percent compared with 6 percent.

Business Increases Capital Outlays

American businesses have again expanded their actual and planned expenditures for plant and equipment, according to Department of Commerce-SEC figures. Outlays for the first quarter at a seasonally adjusted annual rate reached \$42.55 billion, well above the \$41.25 billion anticipated three months ago; and the second-quarter rate is now placed at \$43.35 billion instead of \$42.7 billion. In the first three months, all the major industries except communications and the commercial group (trade, service, finance, and construction) spent more than they expected to when the survey was made in February. For the second quarter, only the mining and transportation industries have scaled down their proposed capital acquisitions.

The expenditures projected for the second half have also been raised, from an annual rate of \$44.45 billion to one of \$44.85 billion. Third-quarter spending is antici-

pated at \$44.3 billion and fourth-quarter outlays at \$45.4 billion. The estimate for the year as a whole is now a record \$43.9 billion, 12 percent above the 1963 level. Manufacturers currently plan to spend 16 percent more than last year (compared with 13 percent in February), with durables and nondurables planning nearly equal boosts. Railroad companies plan an increase of 31 percent over 1963, and other transportation firms a rise of 15 percent. The advances for mining, public utilities, and commercial and other companies range from 5 to 8 percent.

Unemployment Rate Drops

The seasonally adjusted unemployment rate declined in May to 5.1 percent, compared with the 5.4 rate of the three preceding months. The May level was the lowest since February, 1960. The drop reflected improvements both in employment and in unemployment. There was no change in the labor force. The number of workers with jobs rose 1.2 million, about 200,000 more than expected for the season, to an all-time record of 71.1 million. The increase was about evenly divided between agricultural and nonagricultural work, both of which showed greater-than-expected gains. Nonfarm jobs totaled 66.1 million.

Unemployment fell 281,000, about 200,000 more than expected, to 3.6 million. It was reported that all of the reduction occurred among people hunting full-time work. For adult men the unemployment rate declined from 3.8 percent to 3.6 percent, the lowest point in nearly seven years; the rate for adult women dropped from 5.4 to 5.0 percent, the lowest since September, 1960. As in past months, the rate for teen-agers was stuck at a high level, 15.9 percent, not significantly lower than in April.

Further Improvement in Payments Position

The balance-of-payments position showed further improvement in the first quarter. After seasonal adjustment, the adverse balance was about \$40 million, a low figure compared with most other recent quarters. In the main, the latest figures reflected two things: (1) a net contribution to receipts of \$100 million from "special" government transactions such as advance foreign debt repayments and military sales contracts, and (2) an adverse balance of \$140 million on "regular" types of transactions, including exports and imports. The deficit on "regular" transactions was considerably lower than the \$1.1 billion level of the first quarter of 1963 and the \$455 billion figure for the last three months of 1963.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Technology Versus Nationalism

The world is pervaded by nationalism. It is seen everywhere—in the liberation movements of the new countries, in the quarrels between allies, and in attacks on the United Nations. Even the regional alliances have self-seeking protective features.

Two notions seem inevitably to accompany nationalistic patterns of thinking: the first is that national authority is really supreme; the second is that the country can "go it better alone." It is in the weakest, least developed countries that the dictatorial mind seems most definitely to dominate. Their leaders have a propensity for a kind of "God complex" and may make a mockery of the promises of freedom and democracy that helped bring them to power. But all countries have elements belonging to that same school of thought.

Along with the authoritarian view goes the belief that if independence is really complete, the ability to set policies without outside consent will automatically lead to a solution of the country's problems. Even in the most powerful countries, the belief that the "strong man" can somehow work wonders has wide acceptance. Both developed and underdeveloped nations may succeed at times in accelerating economic growth in disregard of their policies' effects on others. But when this practice is carried to extremes, it can only lead to international disintegration, as exemplified in the economic warfare of the 1930's. In today's world, no nation can profitably retire behind a great wall that shuts out foreign influence. International goodwill increasingly becomes the basis for economic progress as well as political protection.

Quite apart from political considerations, however, there is a reason why nationalistic policies cannot produce lasting success: without advanced technology, a nation cannot grow, or even remain secure in its independence. It is not enough that there be a few thinkers sophisticated in scientific knowledge and a handful of automated factories. Accumulated human experience and knowledge must be built into the structure of the economy, into the abilities of its workers, and into a huge accumulation of capital in the form of machinery, power sources, and guidance systems. Without continuing gains along this front, the dreams of achievement cannot be realized, and continual failure is bound to topple regimes that cannot deliver against promises made to the people.

Sources of the Conflict

For many countries, the needed technology already exists, though to borrow and assimilate it may require some kind of research and development effort, if only to adapt what is known to local conditions. Nationalistic attempts to preserve local language and customs may interfere with this somewhat, but the really great obstacle is the lack of real capital. Capital can still be accumulated in small increments by depressing the living standards of the people. But this is so far short of what is possible and feasible through international cooperation that it is no longer considered an acceptable approach. Capital, like scientific knowledge itself, has to be acquired in the countries where it is available. But nationalistic policies are more likely to set up barriers than to encourage the international flow of available capital.

Some other countries—the United States in particular—have at least periodic surpluses of capital. These surpluses tend to be embarrassing, because the reactions of accumulating stocks on flows of income and production spread retrenchment throughout the economy. As a result, there is persistent unemployment even when activity progresses to new peaks. It would be advantageous to make the capital surpluses available for export, even if they had to be given away, because the additional employment in the capital goods industries would lift incomes and consumption at home as well as abroad. But the commercial principles which dictate making each pay for what he gets restrict giving, so that foreign aid and lending programs have been held to very modest levels.

What technology requires is the widest possible freedom for world trade and unrestricted flows of information and capital. Rich countries and poor alike seek markets for their goods. Even the poor are often confronted with world-wide surpluses and depressed prices for the few commodities they can produce, for several reasons: the competition in those commodities is severe; technology is constantly finding substitutes for them; and the wealthy protect their own producers against outside competition.

But the poor need capital, whereas the rich have capital, and must produce more in ever-expanding quantities, needing only markets. So it would be a kind of "natural" to bring the two together. Nevertheless, nationalistic policies remain restrictive on both sides. The underdeveloped countries feel they must accept, if necessary, retardation and temporary setbacks in order to establish the right to trade and profit on terms of equality and mutuality. And the wealthy do not consider it good business to send capital where unstable politics may result in its loss.

In the Communist world, too, disparities of wealth and poverty prevail, and a country's success there as elsewhere lies in the accumulation of technology and real capital. The problems faced are similar to those of other countries in comparable stages of development. But at the roots of its ideology lies the economics of scarcity, in much the same relationship as to capitalist doctrine, and it makes aid again contingent on "good behavior."

All the nations accept goals of industrial development and improved living standards that can only be realized by playing the game according to technology's rules. Under these rules, political leaders do not have as much latitude as they believe they have, let alone as much as they would like. Recurring problems constantly leave their hopes unfulfilled, and these problems derive from

(Continued on page 8)

SAVINGS AND LOAN ASSOCIATIONS

When Comly Rich borrowed \$375 in February of 1832 he became the first man in the United States to finance the purchase of a home with money borrowed from a savings and loan association. The lender was the Oxford Provident Building Association, of Frankford, Pennsylvania, which had been formed a few months earlier.

The idea soon spread and associations were formed in all parts of the country. The first state west of the Alleghenies to have an association was Illinois, the first association in the State being formed in Chicago in 1851. By 1927 the number of associations in the country had reached 12,804, the all-time high. From 1927 to 1949 the number steadily declined to 5,983, but in 1950 the trend again reversed and at the beginning of 1963 there were 6,277 associations in the United States.

Although the number of associations continued to decrease throughout the 1940's, the total value of association assets reached its Depression low in 1939 when assets totaled \$5.6 billion, down from the 1930 high of \$8.8 billion. Since 1939, assets have increased constantly to their present level of over \$107 billion.

In view of the early entry of Illinois into the field, it is perhaps not surprising that the State is still a leader in savings and loan activity. The state's 600 associations make it second only to Pennsylvania in number of associations. Total assets of nearly \$8.8 billion at the end of 1962 were surpassed by but one state, California.

Protection for Savers

Associations may be established under either federal or state charter. Of the 600 associations in Illinois, 464 operate under state charter. Federal charters are issued by the Federal Home Loan Bank Board (FHLBB), which controls the Federal Home Loan Bank System established in 1932 by the Home Loan Bank Act. This act set up provisions under which the 12 district Federal Home Loan Banks can channel funds from associations with excess reserves to those which have a shortage. Also, the district banks can advance funds to an association which is experiencing unusually heavy withdrawals. This permits the association to meet its demands without having to liquidate loans. In 1963, advances of \$5 billion were made.

The Federal Savings and Loan Insurance Corporation (FSLIC) was established in 1934. All federally chartered associations must be members, and over half of the country's state-chartered institutions have elected to join. The FSLIC insures each account up to \$10,000. An attempt was made in Congress this year to increase the amount to \$20,000, but the bill failed to pass. In its 30-year history the FSLIC has had to pay on only about 40 savings and loan failures.

Association Income

About 80 percent of an association's gross income comes from interest on mortgage loans. In 1962 savings and loan associations originated about half of the nonfarm

mortgages in the country. In Illinois, associations originated 69 percent of the total of \$1.5 billion.

An association's net income is derived from the difference between the interest it must pay on deposits and the interest it earns on loans. This "spread" has been decreasing over the past few years, putting pressure on association income. In 1955 the spread was 2.56 percentage points. In 1959 it had dropped to 2.20 points. Currently, the average interest rate is above 4.25 percent and average mortgage rates are 5.8 percent or less, resulting in a spread of less than 2 percentage points.

Part of the cause of the declining spread has been the increased competition for savings. In order to attract savings, higher interest rates must be offered. The average rate was about 2.5 percent in 1950. The competitive pressure has pushed the rate up so that now most Illinois associations must pay 4.25 to 4.5 percent.

Lending Powers

Generally, an association is limited to making conventional 25-year loans on up to 80 percent of the appraised value of one-to-four-family dwellings within 100 miles of its office. However, certain exceptions are allowed by the FHLBB. In 1961 power was given to grant 30-year loans of up to 90 percent of the appraised value on single-family dwellings. These loans are not to exceed 20 percent of the association's total assets. Since 1957, associations have been able to participate in mortgage loans of associations in other parts of the country by purchasing an interest up to a 75 percent limit. Starting July 1, the amount of participation will be limited to 50 percent. Also becoming effective July 1 is a new rule which permits an association to invest up to 5 percent of its total assets in conventional loans outside its own lending area.

Since 1961, loans on housing for the aged, business development corporations, and urban renewal investment trusts have been allowed. Associations are also permitted to make property improvement loans, loans to acquire and develop land, loans on developed building lots, and loans on commercial and multifamily structures.

Of recent concern in the industry has been the pressures on the dividend rate and the expansion of total savings which the associations have available. In order to make money the associations must find outlets for these funds, and some observers have felt that the quality of loans approved has been deteriorating. Delinquency rates and foreclosures are increasing. The foreclosure rate was 4.44 per thousand last year, up for the fourth consecutive year.

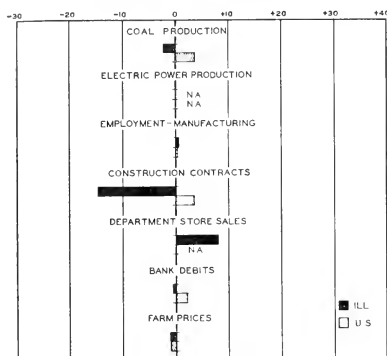
In an attempt to relieve the upward pressure on dividend rates, the FHLBB recently issued some new regulations. Reserve requirements on some rapidly expanding associations are raised above the normal 10 percent. The amount of fee income which can be used to pay dividends has been reduced. Finally, requirements for advances from the Federal Home Loan Banks have been stiffened. It is still too soon to tell whether or not these measures will be effective.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, March, 1964, to April, 1964



* Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Apr. 1964 (1957-59 = 100)	Percentage change from	
		Mar. 1964	Apr. 1963
Employment—manufacturing ¹	98.9	+ 0.3	+ 2.2
Weekly earnings—manufacturing ¹	122.8 ^a	+ 0.5	+ 4.9
Consumer prices in Chicago ²	105.7	0.0	+ 0.3
Life insurance sales (ordinary) ³	157.9	+ 4.5	+17.0
Dept. store sales in Chicago ⁴	125.0 ^b	+ 3.3	+11.6
Farm prices ⁵	93.0	- 1.1	0.0
Bank debits ⁶	172.7	- 0.4	+19.3
Construction contracts ⁷	107.0	-14.8	-23.1
Electric power ⁸	123.1	- 7.8	+12.9
Coal production ⁹	116.8	- 2.4	+ 2.5
Petroleum production ¹⁰	78.5	-11.8	-20.1

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Agcy. Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.
* Preliminary. ^a Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Apr. 1964	Percentage change from	
		Mar. 1964	Apr. 1963
Personal income ¹	483.1 ^a	+ 0.5	+ 5.6
Manufacturing ¹			
Sales	445.2 ^a	+ 2.5	+ 6.3
Inventories	60.5 ^{a,b}	+ 0.3	+ 4.1
New construction activity ¹			
Private residential	26.1	+17.3	+ 9.5
Private nonresidential	17.7	+ 1.6	+10.3
Total public	18.0	+12.6	+16.8
Foreign trade ¹			
Merchandise exports	26.2 ^c	+ 4.2	+ 2.6
Merchandise imports	19.1 ^c	+19.0	+ 8.8
Excess of exports	7.0 ^c	-22.1	-11.2
Consumer credit outstanding ²			
Total credit	69.8 ^b	+ 1.3	+10.5
Installment credit	54.4 ^b	+ 1.1	+11.4
Business loans ³	43.9 ^b	- 1.3	+ 7.5
Cash farm income ⁴	31.1 ^b	+ 1.1	+ 6.3
Industrial production ²			
Combined index	129 ^a	+ 0.8	+ 5.5
Durable manufactures	131 ^a	+ 1.0	+ 6.4
Nondurable manufactures	130 ^a	+ 0.5	+ 5.0
Minerals	109 ^a	+ 1.2	+ 1.0
Manufacturing employment ⁴			
Production workers	102 ^a	+ 0.2	+ 1.5
Factory worker earnings ⁴			
Average hours worked	102	0.0	+ 1.3
Average hourly earnings	118	+ 0.4	+ 3.3
Average weekly earnings	120	+ 0.4	+ 4.6
Construction contracts ⁵	152	+ 3.4	+ 9.4
Department store sales ⁶	n.a.		
Consumer price index ⁷	108	+ 0.1	+ 1.5
Wholesale prices ⁸			
All commodities	100	- 0.1	+ 0.6
Farm products	95	- 0.7	- 0.9
Foods	100	- 0.1	+ 1.1
Other	101	0.0	+ 0.7
Farm prices ⁹			
Received by farmers	98	- 1.0	- 2.0
Paid by farmers	107	0.0	+ 0.9
Parity ratio	75 ⁴	- 2.6	- 3.8

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b End of month. ^c Data for March, 1964, compared with February, 1964, and March, 1963. ^d Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1964					1963
	May 30	May 23	May 16	May 9	May 2	June 1
Production:						
Bituminous coal (daily avg.)	1,665	1,545	1,527	1,531	1,509	1,514
Electric power by utilities	18,037	18,277	17,812	17,836	17,663	16,105
Motor vehicles (Wards)	194	206	208	213	216	164
Petroleum (daily avg.)	7,637	7,640	7,629	7,642	7,647	7,453
Steel	132.2	134.8	134.4	133.8	131.8	140.0
Freight carloadings	577	595	591	582	568	548
Retail sales	5,078	5,047	5,007	5,131	5,118	4,760
Commodity prices, wholesale:						
All commodities	100.1	100.1	100.1	100.1	100.3	100.0 ^a
Other than farm products and foods	101.0	101.1	101.1	101.1	101.1	100.5 ^a
22 commodities	94.8	95.1	95.4	96.0	96.1	95.6
Finance:						
Business loans	38,305	38,416	38,394	38,307	38,057	35,068
Failures, industrial and commercial	236	255	277	257	278	235

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for May, 1963.

RECENT ECONOMIC CHANGES

Highway Construction

The Department of Commerce in its annual summary of construction outlays for 1963 has estimated that capital expenditures for all roads and streets during 1964 by all levels of government will increase 5 percent over the \$6.7 billion spend last year.

Of the 1963 outlays, slightly over \$2 billion was for the Interstate Highway program, for which the federal government contributes 90 percent of the cost. As of the end of 1963 more than \$17 billion had been spent on this new system of national roads; completed work had cost \$8.8 billion, of which \$7.1 billion had been used for construction and \$1.7 billion for engineering and right-of-way acquisition. The 41,000 mile system approached the half-way mark in 1963, as 16,600 miles were open to traffic and construction was under way on another 5,000 miles.

In addition to expenditures on the Interstate System, more than \$18 billion has been spent or authorized under the ABC program of federal assistance for the improvement of primary, secondary, and urban roads and streets since July 1, 1956. Included in this amount are outlays totaling \$4.7 billion last year. Highway construction provided over 300,000 jobs on road and bridge construction sites and generated about 500,000 off-site jobs in production, supply, and transportation of highway construction materials and equipment last year.

Housing Activity

During the first four months of 1964 private nonfarm housing starts reached a seasonally adjusted annual rate of 1.6 million units, about 10 percent greater than that recorded for the same period in 1963. A significant aspect of this movement in residential construction has been the continuing shift from single-family to multi-

family units, particularly three-or-more-family structures, as indicated in the chart. The number of multifamily units started last year, 581,900, was the greatest ever recorded.

This strong demand for multifamily housing units in the 1960's has resulted from the rising number of young families, as the war babies reach marital age; from the new emphasis being placed on special housing for the independent elderly; and from the growing demand for improved quality of housing accommodations. In addition, apartment house construction has been spurred on by the expanding programs of urban redevelopment, increasing scarcity of land, continued abundance of loan funds for residential construction, and the strong profitability of rental investment.

Supply and Price of Beef

Cattle producers since World War II have marketed younger, higher quality, and more uniform animals and have grain-fed an increasing proportion of the cattle slaughtered. In addition, consumers with rapidly advancing incomes have developed a growing taste for beef to barbeque, grill, and roast. Last year, according to the Department of Agriculture, per capita consumption of beef reached an all-time high of 95 pounds, up more than 50 percent from 1950. Between 1958 and 1962 per capita consumption rose from 80.5 pounds to 89.1, with the retail price of beef remaining about 81 cents a pound. But when beef supplies advanced by over 7 percent in 1963, retailers had to lower prices in order to sell all the beef produced.

This shift in the livestock-meat situation has affected the various segments of the industry very differently. In 1954 the farmer who sold a 1,000 pound choice steer received about \$237 for it. The butcher and packer received \$263 for the carcass and salable by-products; and the retailer, who paid \$242 for the carcass, received \$313 for the cuts of beef it produced. In 1963 a similar steer sold for \$237.50 by the farmer, \$270 by the packer, and \$352 by the retailer.

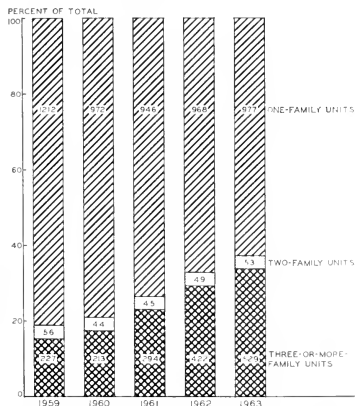
Whereas the farmer received 65 cents of each consumer dollar spent for beef in 1954, he received only 56 cents in 1963 and over the same period of time the farm-retail spread rose from 12 cents a pound to a record high of 35.7 cents a pound. This rapid increase in the farm-retail spread for choice beef accounts for much of the rise in the consumer price index for the same period.

Despite a rise in the marketer's share of the retail price of beef, overall profits per dollar of total sales reported by packers and retailers have not been large in recent years. Profits per dollar of sales have changed considerably from year to year, but data for the past 15 years shows no significant trend.

Personal Income Rises

Personal income for April was at a seasonally adjusted annual rate of \$480.3 billion, \$25.5 billion above the rate recorded for April, 1963, according to the United States Department of Commerce. About 75 percent of the rise resulted from an increase in wage and salary disbursements in all industries and services. The largest source of personal income, the commodity-producing industries, accounted for \$103 billion at seasonally adjusted annual rates, with half of the payroll advance occurring in manufacturing.

PRIVATE NONFARM HOUSING STARTS
(Numbers in thousands)



Source: U.S. Department of Commerce, *Construction Review*, April, 1964, pp. 6-7.

AGRICULTURAL ECONOMICS IN THE U.S.S.R.

C. B. BAKER and E. R. SWANSON,* Professors, Department of Agricultural Economics

The difficulties of increasing agricultural production experienced in the U.S.S.R. were brought to public attention by the poor crop harvest in 1963 and the subsequent importation of wheat. These problems offer a strong contrast to those of United States agriculture, where a number of factors have combined to generate surpluses in at least some commodities. In this article, we report our impressions of how the Soviet agricultural economists are responding to the way they view their agricultural problems. By the emphasis given in the advanced training of agricultural economists and by the types of research undertaken, one can infer, at least to a limited extent, what are thought to be the important problems relating to the economics of agricultural production. A sketch of the Soviet farming system precedes the description of the research orientation in agricultural economics.

Organizational Structure of Agriculture

Farms in the Soviet Union are organized as either collective or state farms. The number of collective farms declined from about 250,000 in 1950 to 40,600 in 1962 (see table). The number of state farms increased from about 5,000 in 1950 to 8,600 in 1962. This pattern results from mergers of smaller collectives, absorption of collectives by state farms, and new state farms in the "New Lands." The average sown area for collectives in 1962 was about 7,000 acres, for state farms about 25,000 acres.

Although Soviet authorities expect a single type of farm to prevail eventually, its exact nature has not been made explicit. State farms appear highly favored in principle. Yet there is considerable pride in the relative independence of the collectives despite government limits on independence through prices, norms for indivisible funds, negotiations for loans for new investments, and other controls. In any event, collectives are, for the present, indispensable. The collectives employ a large number of workers who otherwise would have little alternative employment. In a society that "guarantees" everyone a job, this point is important. They "require" smaller allocation of investment per worker than do state farms, although investment per acre is about the same. Collectives apparently provide the larger percentage of investments from their own resources.

On state farms, workers are employed on an "as needed" basis. This fact, along with the larger capital investment per worker on state farms, accounts for the reported 1.8 times higher productivity per worker on state farms than on collective farms. Also state farms have expanded relatively more rapidly in areas of extensive agriculture (the "New Lands" areas, for example).

On state farms, wages are guaranteed whereas on collectives, wages depend on the level of net income for a particular year. The difference is easily overstated since, in practice, state farm workers are paid bonuses for such items as cost reductions below established targets and over-fulfillment of quotas. Further indication of the diminishing difference between state and collective labor payments is that the most efficient one-fourth of the

collectives (in the Ukraine, the top one-third) pay workers guaranteed minima as do state farms.

Small private plots, on both collective and state farms, occupy about 3 to 4 percent of the sown area (see table). They average about 0.7 acre per household on collectives. The objective of the private plot is to provide subsistence to the worker through the year, pending payment of his share of the farm's collective output. In fact, as many have observed, it is the source of a considerable fraction of the income of workers and the source of a large fraction of agricultural output in the U.S.S.R. For example, about 45 percent of the meat, milk, and vegetables was produced in the private sector in 1961. In all, 30 percent or more of agricultural production comes from private plots. This phenomenon continues to attract considerable attention. It must be said, however, that private plots absorb significant inputs formally ascribed to the socialized fraction of the farms, thus leading to an overstatement of productivity in the case of the private plots and an understatement of productivity for the socialized segment of agriculture. Also, this apparent productivity of the private sector needs to be interpreted in light of the kind of production. It is somewhat misleading to talk of livestock production per unit of area of land.

Planning Agricultural Production

The planning of agricultural production, along with other aspects of the economy, starts with the Supreme Council of National Economy where general production goals are outlined. These production goals are given to the State Planning Commission, the staff of which works out by trial-and-error methods the implications for each republic. These aggregate plans are passed through republic, region, and territory levels on down to the director of the individual state farm and the executive council of the individual collective farm. These plans are not developed in a completely one-way system; there is apparently some interaction and negotiation in the planning process.

Percentage Distribution of Land, Livestock, and Output, by Farming Sector, U.S.S.R., 1962*

Item	State farms ^b	Collective farms	Total socialized sector	Private plots
Agricultural land area	49.5	49.1	98.6	1.4
Sown area	42.7	54.0	96.7	3.3
Cattle	26	45	71	29
Cows	20	35	55	45
Pigs	29	43	74	26
Sheep and goats	28	47	75	25
Agricultural output	24	44	68	32
Field crops	27	57	84	16
Livestock products	22	31	53	47
Number of farms (thousands)	8.6	40.6	49.2	25,800

* U.S. Department of Agriculture preliminary estimates based on official Soviet data.

^b Includes a number of small state-owned agricultural enterprises not classified as state farms.

Source: U.S. Department of Agriculture, *Soviet Agriculture Today*, Foreign Agricultural Economic Report No. 13-1, December, 1963, page 10.

* During the spring of 1963 the authors participated in the U.S.-U.S.S.R. Cultural Exchange Program by lecturing at a number of institutions in the U.S.S.R. and holding discussions with Soviet agricultural economists. This article is based primarily on observations from this trip.

Such financing as may be possible is negotiated by farm officials with regional authorities and the local representative of Gosbank. Apparently, the interest rate charged the borrower is nominal, designed only to pay bookkeeping costs. It seems likely that the bank official is more or less passive in the negotiations, being largely an accounting official. This leaves the state farm director or the executive council of the collective to negotiate with the regional authorities on size and length of loan. On these points no clear conclusions are possible from interviews held with ministry officials and a farm official. Criteria for loans are alleged by some officials to favor farms whose earning records are relatively weak, such farms tending to receive comparatively large loans for a term longer than average. Reports on this were not uniform, however. No information was obtained on the incidence or consequences of default.

The state farm manager receives goals or targets for each of the following: physical production, cost of production, capital investment, number of workers, and total wages. The collective farm receives targets for only the first two. Bonuses for state farms are sometimes paid for over-fulfillment of targets.

In addition to the formal government hierarchy, Communist Party members play important roles in implementing policy. This includes giving technical advice at the individual farm level, as well as advice on methods of providing for the social welfare of farm workers. On the technical side, Party activities supplement extension-type services that comprise a part of the program of the All-Union Institute of Agricultural Economics. Interviews with Institute officials revealed a growing awareness of the importance of this type of activity. Indeed, the beginnings of a research program to investigate alternative methods were reported by persons at the Institute.

Research Emphasis

A convenient way to classify the possible research areas is by the various levels at which resource allocation is performed: between nonagricultural industry and agriculture, among regions within agriculture, among farms within regions, and within farms. The special problems of labor incentives are in a class by themselves.

Very few of the agricultural economists visited were actively involved with research problems relating to resource allocations at the first two levels—between agriculture and nonagricultural industry, or among regions within agriculture. This does not mean, of course, that these problems are not being actively studied by other groups. It may, however, reflect what is considered appropriate research for the economist specializing in agriculture. It is hardly likely that the recent announcement of plans for an approximate doubling (1965 over 1961) of state capital investment in agriculture was done without at least some research base. In any event, it seems clear that agricultural output has lagged substantially behind nonagricultural output, despite the fact that investment in agriculture has remained at about the same percentage of the total throughout the post-World War II period (see chart).

In addition to problems of reporting accuracy, the indexes are subject to serious upward bias. The bias arises from failure to eliminate output that occurs in the form of intermediate products. Thus in agriculture, crop production is simply added to livestock production to yield agricultural output. As feed supply shifts from grazing to cultivated crops, the upward bias is obvious.

Similarly, mining output is simply added to metal manufactures in computing nonagricultural output.

Resource allocation among farms within a region was receiving attention at a number of institutions. Some sample thesis topics at this level of analysis were "Prospects for Developing Agriculture in the Pskov Region" (a war-ravaged region in northwest Russia), "Specialization in Agriculture of the Latvian Soviet Republic," and "Determination of Optimal Cropping Pattern for the Leningrad Oblast." There was some interest in problems of optimum farm size, both for state and collective farms. Some Soviet agricultural economists view the problem of farm size as a critical one for analysis by the profession; others spoke of size of farm as a political decision, outside the legitimate scope of their study. Some concerned with farm size tended to see the problem as one of how best to organize labor, including size and control of work brigades. Others were concerned with the bureaucracy associated with increased size, and hence the increase in problems of communication. Still others seemed naively confident that optimum size meant essentially larger size.

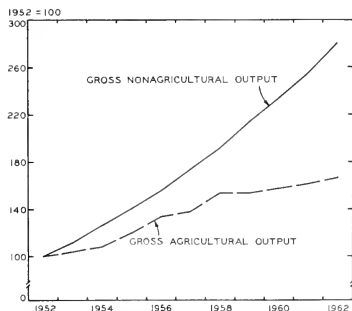
Resource allocation within farms is receiving considerable research attention from Soviet agricultural economists. A number of studies are directed toward reducing cost of production either by introducing new technologies or by reallocating the present resources.

New Methods in Planning

Linear programming, a method of planning, is currently attracting much interest in the U.S.S.R. It is explored methodologically in a thesis, "Mathematical Methods of Planning Agricultural Production on Farms in the Moscow Region." Although the original paper on linear programming was published in 1939 by a Soviet mathematician, this increase in interest dates from the late 1950's.

Since linear programming offers a method for increasing the internal consistency of complex plans, it may prove to be a breakthrough in planning, both at the individual farm level and at higher levels. However, problems of changing the bureaucracy of the present planning systems as well as obtaining accurate data are substantial obstacles to rapid adoption of such planning

PRODUCTION IN THE U.S.S.R.



Source: U.S.S.R., *Handbook of Statistics*, 1963, p. 34.

methods. The large number of students majoring in mathematical planning methods (for example, about one-half of those studying economics at Leningrad State University) indicates how strongly the Soviets feel that these methods hold promise.

A popular view in the West is that one of the chief factors in the lagging production of Soviet agriculture is the organization of labor and its lack of incentive. This is not without recognition among Soviet research workers. More efficient organization of work brigades and other units is being investigated. Topics of these in this problem area were "Rational Use of Labor Force on Collective Farms" and "Effects of Progressive Wage Payments on Efficiency in State Farms."

In one sense, more significance might be ascribed to the Soviet thesis topics than to a sample of United States graduate theses in, for example, agricultural economics. The typical Soviet graduate student is employed in a government institute wherein the topic is originated and developed. Together with the formidable bureaucratic process of obtaining approval of a thesis, one feels quite certain that most topics are so selected as to minimize the risk of being found to be irrelevant. One fears also that the student is well advised to avoid projects that, though with high payoff from success, have a substantial probability of failure.

Concluding Remarks

The Soviets devote substantial effort and resources to observing research work in "advanced capitalist economies." A large corps of specialists makes available to Soviet scholars the technical literature from agricultural experiment stations in the United States and Western Europe. In observations about their own country, they seemed naively confident (with some exceptions) of the quality of statistics gained from annual reports of the state farms and collectives.

The general pattern of research observed is relevant in implementing the new policy for agriculture announced at the February, 1964, Plenum of the Central Committee of the Soviet Communist Party. This policy involves the shift away from land expansion to intensive methods involving mineral fertilizers and machinery. The Soviets have made agronomic studies of regions and crops to estimate the yield increases. Scientists of the United States Department of Agriculture have indicated that expected increases are roughly correct.

Whether or not the greater use of fertilizers and chemicals in general, now being given new emphasis, will perform the feats claimed by the Soviets remains to be seen. Despite a long-term effort to mechanize agriculture, only a beginning has been made in many sectors. The general tendency to slight spatial problems is a bit puzzling in a country with the geographic characteristics of the U.S.S.R. But perhaps the greatest paradox is the nearly universal lack of concern for managerial talent: its development, nurture, and reward. With only an exception or two, among interviewed respondents, management was assumed "available," much as the air one breathes. And seldom was the problem of management identification and use related to the size of farm. In a society prideful of ubiquitous application of "science," this may be the most important gap in remedying agricultural problems. If so, it is likely to become more and more evident with the adoption of production techniques less tolerant of managerial error. It is also likely to be increasingly evident as livestock production is emphasized.

Technology Versus Nationalism

(Continued from page 2)

the necessities of technological advance. They are in their basic nature the same everywhere but appear different to the various nations because some nations have progressed further in development than others.

At the same time, the political decisions handicap achievements that are technically possible: the underdeveloped countries refuse to bow before the superior technology of the developed; the wealthy fear to ship capital into anarchy; the capitalist-communist clash keeps the situation disturbed, and the only choice it offers appears to be spurious, since, if accepted, it might lead again to the kind of domination all countries are now trying so hard to avoid. Thus, nationalism and technology are locked in a conflict of mutual frustrations.

Enduring Conquest

Since generations of men, their leadership, and their institutions are transitory, it must be expected that technology will triumph in the end. The environment of the future will be different, as ours is from that of the past, and human institutions will have to be adapted to it. We can try to bring about this adaptation intelligently and peacefully or we can continue to let it develop as it will, each seeking only his own advantage, in which case necessary reforms will be forced upon us or international disintegration will lead ultimately to disaster.

There are, in other words, several ways in which technology may enforce its victory. One possibility is that it may destroy us all. There is still no assurance that the weapons of total destruction will not be used to wipe out the human race.

Another is that it may put the means to dominate into the hands of a group ruthless enough to enforce its will on the others. Today, there exists a kind of balance in the control of destructive forces. Whether no one dares use or each reserves his power to prevent its use by the other does not matter. The two great powers of the present-day world are feeling out an accommodation that permits others to enjoy freedom to the point of abuse. But in the future this could change, letting one nation with overwhelming power take over control and dictate the terms upon which others may live.

A third possibility, more in line with our ideals, is that the technical dangers and opportunities may lead to international cooperation in establishing control in accordance with democratic principles. The world would then find that the technology and capital available are adequate to accelerate the progress of all nations willing to adapt to the new conditions and accept mutuality in the realization of benefits. This is the one way for free men to realize the promise of technology, and its essence is the increase in international interdependence. The standards and procedures of nationalistic control must give way in order that international discussion and negotiation may hold sway in realizing a wider set of values. Only in a stable "one world" environment will man be able to achieve the productivity which the processes of discovery and invention make possible.

For success in this venture, the partial accommodation between the world's strong nations has to be preserved and expanded. There is a chance of approaching the vision of abundance if the great nations will refrain from using the destructive power they have acquired and bar the use of such power as it may be acquired by others.

V.L.B.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Sugar Price Stays High

United States farmers are raising more sugar beets and sugar cane than ever before in response to a decrease in world sugar stocks that began in 1960. This turnabout from excess world sugar stocks and low prices to a shortage of sugar and high prices can be traced to a decline in sugar production in Cuba (formerly the world's largest producer), to poor sugar beet crops in Western Europe, and to continued increases in world sugar consumption. In order to meet the rising demand for sugar, domestic farmers are increasing their output of beets and cane; but even though acreage controls no longer exist, production has been controlled indirectly by government-established marketing quotas and by lack of enough processing plants.

Government control of domestic sugar supplies was established by the Sugar Act of 1937 (amended in 1951, 1956, 1960, 1961, and 1962) and was an outgrowth of the International Sugar Agreement of 1937. Under this act the United States government tries to protect domestic sugar producers and consumers from volatile price adjustments by rigidly controlling supplies. Despite the agreement and act, the period between World War II and 1960 was characterized by surplus world supplies and low sugar prices, although domestic consumers and producers were insulated to some extent from world price movements through the administration of the Sugar Act.

However, with world production of sugar falling short of consumption during the last three years and with the world price rising above the domestic control level of 6.6 cents per pound, the domestic market has been forced out of its isolation. From January, 1962, to May,

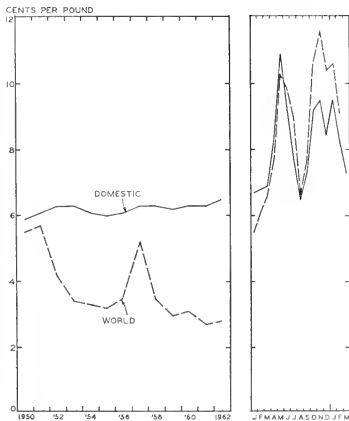
1963, world sugar prices rose from 2.5 cents per pound to 10 cents per pound and subsequently to 11.7 cents per pound in October of 1963, as indicated in the chart. On the basis of the reasonable assumption that world consumption of sugar will continue to advance at about the same rate, world production of sugar is likely to be stimulated by the high sugar prices. But since cane, from which most of the world's sugar comes, matures slowly and since domestic sugar production is hampered by lack of processing plants and mills, the price of sugar is expected to remain high for the next two or three years.

Insurance Personnel in the U.S.

The total number of persons employed in the insurance industry decreased 2.8 percent in 1963 to 1.1 million workers, according to the latest survey by the United States Bureau of the Census. Sales personnel advanced 14.6 percent but nonsales personnel fell 4.3 percent. The rise in sales personnel was principally among those deriving more than 50 percent of their income from the sales of non-life types of insurance. The decline of almost 100,000 persons in nonsales positions occurred mainly among home office personnel as a result of increased use of electronic data processing equipment; there was no change among local agency nonsales personnel or among nonsales persons employed by insurance rating bureaus or trade associations. About 10 percent of all nonsales personnel worked part-time and practically all of these part-time workers were women.

Among sales personnel 85 percent worked longer than 35 hours a week and over 33 percent worked 51 or more hours a week. The survey found that women sales workers were much more likely to work less than 35 hours and men were more likely to work 51 or more hours. Among other characteristics it was found that a higher proportion of all young persons employed in insurance (aged 24 or less) worked in life insurance areas only; about half of all women insurance employees were in this younger age group.

AVERAGE PRICES, RAW CANE SUGAR



Sources: International Sugar Council, *Sugar Yearbook*, 1962, and Standard & Poor's Corporation.

Pleasure Trips by Americans

Almost 68 million pleasure trips were taken by Americans during the first half of 1963. Such trips accounted for 56 percent of all trips taken, according to figures just released by the Bureau of the Census from its 1963 Census of Transportation. A trip was counted if it included one or more persons from a household journeying out of town at least overnight or to a destination at least 100 miles away.

Approximately 70 percent of all pleasure trips were taken principally to visit friends and relatives; another 16.5 percent were for outdoor recreation; and the remaining 13.5 percent were taken for a variety of reasons such as entertainment, sightseeing, and other pleasure. The principal means of transportation used was the automobile, which accounted for 87 percent of the trips to visit friends and relatives, 96 percent of the trips for outdoor recreation, and 77 percent of all other pleasure trips. A comprehensive report titled *National Travel Survey Report—First Six Months of 1963* is available from the Bureau of the Census, Washington, D. C. 20233, for 25 cents.

LOCAL ILLINOIS DEVELOPMENTS

Manpower Development Training in Illinois

The Illinois Department of Labor reports that the State has participated extensively in the program set up by the federal Manpower Development Training Act (MDTA) in mid-1962. As of February, 1964, Illinois had established a total of 152 programs covering about 10,000 trainees, or roughly 10 percent of all programs and trainees in the nation. Another 75 programs, to cover an additional 11,000 persons, are awaiting approval.

The MDTA is a positive means for coping with the problem of hard-core unemployment and thus reducing regional and local disparities in unemployment rates. Labor market environments are improved through job training and retraining and through educational programs. A large variety of programs prepare disadvantaged workers for skilled and semiskilled jobs. In addition, other programs are offered to give trainees a basic sixth-grade level of education and essential job skills or to assist them in obtaining jobs for which little schooling is needed.

New Industrial Developments

Progress in industrial development is indicated by new plants opening in communities throughout Illinois. At Belvidere, a new automobile assembly plant of the Chrysler Corporation is being constructed. The plant, to begin operations in April of next year, will employ about 5,000 persons. In Naperville, Bell Telephone Laboratories has purchased a 200-acre tract upon which a \$9 million communications research and development center is to be built. Upon completion sometime in 1966, the new facility will employ about 1,200 engineers, scientists, and technicians. Libertyville is to be the location of a \$6 million research and development center planned for completion in 1965 by International Minerals and Chemicals of Skokie. Over 200 persons will be employed there.

A company manufacturing soil-testing equipment has located recently in Evanston, and a plant now being built

in Elgin is to produce flexible packaging materials; in each of these plants, about 150 persons are to be hired. Plans have been announced for the construction of a plant at Kankakee for the manufacture of paperboard folding cartons. Upon its completion late in 1965, 125 workers are to be hired. A new firm will begin to produce wooden kitchen units this summer in Gillespie (Macoupin County). A new firm is to begin production of food additives and pharmaceuticals this month in Granite City.

Other new developments include a new lingerie factory in Des Plaines, to open early next year; a facility for nuclear analysis and measurement instruments located in Schaumburg, to open this July; and an abrasives manufacturing plant in Fox Lake, to open this month.

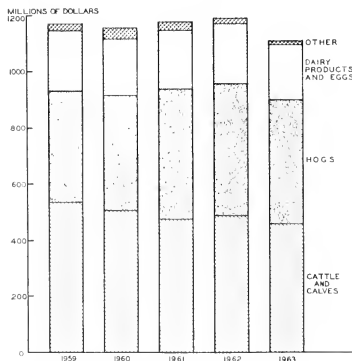
New Tourism Study for Southern Illinois

Governor Otto Kerner has recently announced plans of the Illinois Board of Economic Development to undertake an extensive seven-month study of the southern Illinois economy. Emphasis is to be placed especially on use and employment possibilities of natural resources with respect to tourism and outdoor recreation facilities. Of the 29 counties to be covered, 25 have a problem of high and persistent unemployment. The study is to be financed by a \$65,000 grant from the federal Area Development Administration and by \$25,000 in state funds.

At present, the area receives about \$4 million a year from tourism. Along with the goal of increasing this revenue, the study is to be oriented toward expanding existing recreation facilities and developing new ones and toward making recommendations for additional promotional programs and financing.

The new study, as part of a state-wide plan, is to supplement other projects in southern Illinois. The state Department of Conservation is developing an information center there. The Crab Orchard Wildlife Refuge is being improved, three new state parks are being established, and all-weather roads through these areas are being provided.

CASH RECEIPTS FROM LIVESTOCK MARKETING



Farm Marketings Lower in 1963

The United States Department of Agriculture reports that cash receipts from crop and livestock marketings came to approximately \$2.2 billion, a decline of 1 percent from 1962.

As shown on the chart, receipts from livestock and livestock products amounted to about \$1.1 billion, showing a drop of 7 percent from the previous year. Receipts from cattle and calves, the largest source of livestock income, were 6 percent lower than in 1962. Along with a slight decrease in numbers marketed, producers were adversely affected by lower prices. Hog receipts were down by 6 percent; an increase in numbers marketed did not offset lower prices. Declines in marketing were registered also for dairy products and eggs and other livestock, the latter comprising mainly sheep and lambs, farm chickens, and commercial broilers.

Cash receipts from crops, at \$1.1 billion, showed a gain of 5 percent over 1962 and represented slightly more than half of the combined receipts from farm marketings. Although cash receipts data for individual crop items are not yet available, higher sales values for corn, soybeans, wheat, and oats for the 1963 crop year indicate that increased income was realized.

Source: U.S. Department of Agriculture.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1964

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000,000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS...		\$35,049 ^a	1,466.2 ^a			\$28,720 ^a	\$20,533 ^a
Percentage change from	Mar., 1964	-4.7	-4.8		+8	-0.4	+2.8
	Apr., 1963	-11.9	+7.0		+5	+19.3	+2.1
NORTHERN ILLINOIS							
Chicago.....		\$22,001	1,033.4			\$26,914	\$17,546
Percentage change from	Mar., 1964	+0.9	-6.2		+8	-0.5	+3.0
	Apr., 1963	+10.5	+4.6		+7	+29.1	+1.3
Aurora.....		\$1,237	n.a.			\$95	\$232
Percentage change from	Mar., 1964	-12.0			n.a.	-2.1	+4.0
	Apr., 1963	-41.6				+5.6	+6.9
Elgin.....		\$447	n.a.			\$60	\$206
Percentage change from	Mar., 1964	-69.7			n.a.	+5.3	+7.3
	Apr., 1963	-53.8				+9.1	+52.6
Joliet.....		\$98	n.a.			\$102	\$148
Percentage change from	Mar., 1964	+18.8			+7	+1.0	+7.2
	Apr., 1963	-8.6			+3	+3.0	+0.7
Kankakee.....		\$317	n.a.			n.a.	\$92
Percentage change from	Mar., 1964	-2.2			n.a.		+26.0
	Apr., 1963	+23.3					+3.4
Rock Island-Moline.....		\$1,927	50.8 ^b			\$148 ^b	\$251
Percentage change from	Mar., 1964	-23.7	-0.4		n.a.	-2.8	-3.5
	Apr., 1963	-18.1	+30.9			+9.6	+30.1
Rockford.....		\$1,611	68.4 ^c			\$243	\$317
Percentage change from	Mar., 1964	+28.6	-0.0		+17 ^c	+0.8	-5.1
	Apr., 1963	-20.0	+13.1		+4 ^c	+15.2	+3.6
CENTRAL ILLINOIS							
Bloomington.....		\$442	13.8			\$109	\$176
Percentage change from	Mar., 1964	+149.7	-2.1		n.a.	-2.7	-2.8
	Apr., 1963	-51.5	-3.5			+4.8	-0.6
Champaign-Urbana.....		\$817	22.5			\$109	\$191
Percentage change from	Mar., 1964	-15.2	+3.2		n.a.	+0.9	+2.7
	Apr., 1963	+53.3	+16.0			+18.5	+7.3
Danville.....		\$1,057	22.1			\$57	\$96
Percentage change from	Mar., 1964	+317.8	+5.7		+4	+1.8	+0.0
	Apr., 1963	+333.2	+11.1		-12	+1.8	+10.3
Decatur.....		\$753	44.7			\$153	\$176
Percentage change from	Mar., 1964	-25.5	-0.2		+12 ^c	+2.0	+5.4
	Apr., 1963	-39.8	+17.3		+5 ^c	+19.5	+5.4
Galesburg.....		\$131	13.1			n.a.	\$56
Percentage change from	Mar., 1964	+50.6	-3.7		n.a.		+12.0
	Apr., 1963	-93.9	+15.9				+12.0
Peoria.....		\$492	75.4			\$313	\$373
Percentage change from	Mar., 1964	-47.2	-1.2		+4	+3.3	+13.0
	Apr., 1963	-40.3	+14.2		0	+8.7	-0.3
Quincy.....		\$227	15.1			\$62	\$92
Percentage change from	Mar., 1964	-48.3	-6.8		n.a.	+1.6	-8.0
	Apr., 1963	-83.6	+10.2			+0.0	+7.0
Springfield.....		\$631	46.5			\$170	\$386
Percentage change from	Mar., 1964	-62.0	7.2		-3 ^c	-0.0	+0.3
	Apr., 1963	-50.8	+7.9		-1 ^c	+6.3	-2.5
SOUTHERN ILLINOIS							
East St. Louis.....		\$83	17.8			\$131	\$86
Percentage change from	Mar., 1964	+277.3	+1.1		n.a.	-2.2	-9.2
	Apr., 1963	+31.7	+6.0			-1.4	+3.5
Alton.....		\$452	27.9			\$53	\$42
Percentage change from	Mar., 1964	+216.1	+0.4		n.a.	-1.9	-17.6
	Apr., 1963	-38.5	+9.8			+1.9	8.7
Belleville.....		\$434	14.9			n.a.	\$65
Percentage change from	Mar., 1964	-6.5	-8.6		n.a.		-8.5
	Apr., 1963	-49.5	+4.9				-7.1

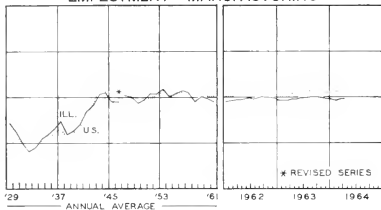
^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending April 24, 1964, and April 26, 1963.

INDEXES OF BUSINESS ACTIVITY

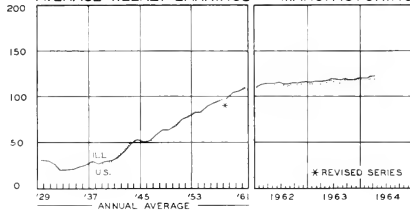
1957-1959 = 100

Illinois Historical Survey
416 Lincoln Hall

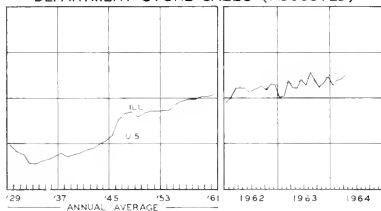
EMPLOYMENT - MANUFACTURING



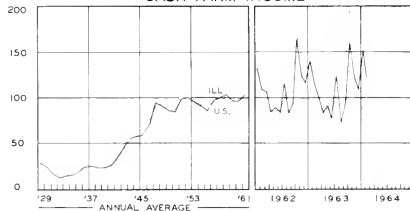
AVERAGE WEEKLY EARNINGS - MANUFACTURING



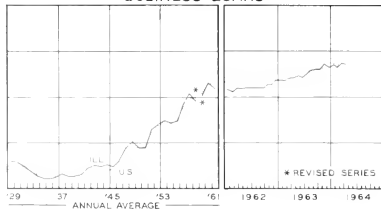
DEPARTMENT STORE SALES (ADJUSTED)



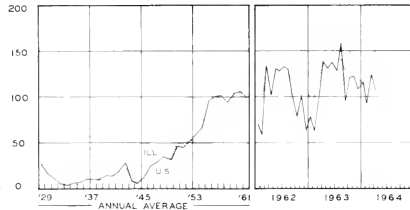
CASH FARM INCOME



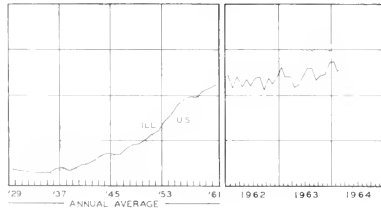
BUSINESS LOANS



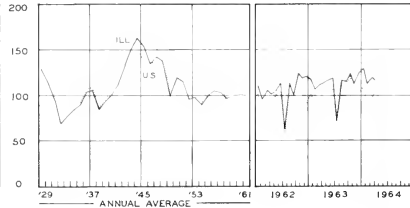
CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



COAL PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

JULY, 1964

NUMBER 7

HIGHLIGHTS OF BUSINESS IN JUNE

Seasonal slowdowns appeared in some lines of production in June, but on the whole industrial production continued at a strong pace. The Federal Reserve Board's index of industrial production inched up a little further, from 131.2 to 131.8 (1957-59 = 100). This new record represented a gain of 5 percent over the 125.5 of June, 1963.

Steel was one industry in which a summer letdown appeared, as output dropped a little each week to 2.3 million tons the last week of June. It then stood slightly above the corresponding week of 1963, reflecting the strength of this year's demand in comparison with the usual summer letdown. Car manufacturers have maintained their orders at a higher level than anticipated; and the construction and rail equipment industries have also been taking unusually large amounts of steel.

Automobile makers set a record for June, for the second quarter, and for the first half. June output was nearly 777,200 cars, well above the previous June high of 717,000 units. Cars assembled during the second quarter numbered nearly 2.3 million, 9 percent more than the previous record for the quarter. For the first half, production totaled 4.4 million cars, a tenth more than in the first six months of 1963 and well above the 1955 high.

Construction Up Seasonally

New construction in June was estimated at \$6.1 billion; the 11 percent increase over the previous month was the expected seasonal change. In comparison with June, 1963, building expenditures were up 5 percent. Both private and public construction showed approximately the anticipated change between May and June. Private construction, valued at \$4.2 billion, was 5 percent higher than in the corresponding month last year; and public construction, at \$1.9 billion, was up 3 percent. In private construction, most of the year-to-year advance was concentrated in nonresidential buildings, with industrial, commercial, and other nonresidential construction all 14 or 15 percent higher.

For the first half of 1964, new construction outlays totaled \$30 billion, 8 percent above the figure for the first six months of 1963. Private expenditures advanced by 8 percent to \$21.3 billion, reflecting a 7 percent gain in residential building and a 12 percent rise in nonresidential construction. Public construction spending, at \$8.7 billion, was 9 percent greater than in the first half last year.

Auto Industry Contract Talks Open

Negotiations for new contracts between the United Auto Workers union and the Big 3 automobile manufacturers opened at the end of June and the first of July, with American Motors starting a week later. Approximately 580,000 workers are covered by the negotiations.

Although wage increases are of course included in the union's demands, greater attention is centered on demands relating to working conditions. Two important aims of the union are additional relief time for assembly line workers and a slower pace on assembly lines. With regard to the latter, there have been numerous charges of speedup. The management position is that unworked time already accounts for a sizable fraction of industry costs and that the pace of the assembly line is not something which can be written into a contract and is in any case a management matter. These two points are expected to be the subjects of the hardest bargaining between the parties. In addition, the union is asking for earlier retirement, more vacation time, a reduction in overtime worked, and a shorter workweek—all intended to add jobs in the automotive industry.

Unemployment Rate Still High

After a welcome drop in May, the unemployment rate was back up in June as younger workers flooded into the labor market. Teenaged workers actually did somewhat better than expected in finding jobs, and their unemployment rate dropped from 15.9 percent to 15 percent; nonetheless, teenagers accounted for 800,000 of the 1,050,000 increase in unemployment. Young adult men between 20 and 24 accounted for 100,000 of the workers who were added to the jobless ranks. This increase was mainly responsible for the rise from 3.6 percent to 4.0 percent in the unemployment rate of adult men, which in turn explained the rebound in the overall rate from 5.1 percent of the labor force in May to 5.3 percent in June. The rate among adult women was practically unchanged. Total unemployment was 4.7 million, about 150,000 less than in June, 1963.

Employment rose by approximately 850,000 between May and June to a total of 71.95 million. Virtually all of the gain occurred in farm work; nonagricultural employment was unchanged at 66.1 million. The total number of workers employed was about 1.6 million above the year-earlier figure.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request. Second-class mail privileges authorized at Champaign, Illinois.

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Basis for Coexistence

Too much emphasis has been placed on the ideological aspects of the Cold War. Nationalistic aspects have been especially played down, or ignored entirely, by leaders who feel the need for a clear-cut ideology as a basis for gaining social cohesion. Everywhere "freedom lovers" and "anti-imperialists" have thus attempted to sell their programs to the world.

What becomes increasingly clear is that the power of an ideology is limited. The common man judges its worth by how well his wants are served. He may be carried away by enthusiasm for a cause, but it must work out as promised in terms of what he sees and feels or he will again seek change—not necessarily to deny basic ideological premises but at least to adapt policies to the realities of the practical situation.

A World of Capitalists

This forces all governments—despite verbal differences proclaimed to be "irreconcilable"—to adopt the goal of higher living standards for the people; even we have our war on poverty. Accepted theory, somewhat oversimplified, holds that the way to success is to increase productive efficiency through industrialization, which requires the accumulation of real capital in the form of industrial plant and equipment. Ownership and control of real capital is thus the key to growth, and in this most meaningful sense all the world seeks to be capitalistic.

The scale of operations of an efficient modern industry is often so large that a small economy cannot provide an adequate market for its output. That is why the underdeveloped nations, in the recent U.N. Conference on Trade and Development, appealed for special concessions so that their new industries could sell without restriction in established world markets.

Playing the development game inevitably brings world leaders up against technological constraints that circumscribe their discretion. The underdeveloped countries are literally starved for capital, and the urgency of their need forces them to make compromises they do not consider desirable. The recent trade deal between the United States and Romania, while it partly reflects the weakening of centralized control over Eastern Europe as a result of the Chinese-Soviet split, exposes needs in the communist bloc not unlike those of the underdeveloped countries. The

communist countries, too, have some surpluses for trading and are short of other commodities needed for development; so they, too, seek trade and credit in the West.

In the developed countries of the West, policies for economic growth also call for additional capital expansion. Tax concessions, investment allowances, accelerated amortization, and other subsidies are provided to stimulate business investment. In addition, these countries face the instability that derives from high rates of investment and large stocks of capital goods. Persistent unemployment and the threat of recession indicate that ability to have enough for all does not mean that all will have enough. The methods devised for dealing with this problem consist in most countries of measures for stimulating private investment still further, supplemented by plans to fall back on increased public investment if necessary.

Even the consumers want to be capitalists. To live in the new world and enjoy its amenities, they must have houses, automobiles, and all the latest gadgets, and they are willing to use credit to the hilt in order to obtain them. These are desires that governments find it hard indefinitely to deny.

The Organization of Production

The problem to be solved everywhere, therefore, is how to organize large aggregates of real capital, specialized as necessary to make them competitive with other producers but flexible enough to keep in step with new technological developments. For best results, operating units must have a degree of independence, detached at least partially from close political or financial control and able to experiment with new products and methods of production. Communist theories of planning have been veering toward decentralization of control for such purposes.

In the West, the corporate form of organization was an inevitable outgrowth of technological advance. Mass production, adapted and guided by research, could not long remain the province of the individual manager or inventor. The unification of the factory and the research laboratory in the corporate structure requires highly organized team activities backed by a huge investment in equipment and instrumentation and makes any return to individual ownership and control unthinkable.

We cling to the thesis that corporate enterprise represents capitalism in the old sense, and corporate managements find it convenient at times to maintain their responsibility to the stockholders. Nevertheless, we cannot escape the fact that the average stockholder is without power to decide the affairs of the corporation, which has become a separate entity with its own self-perpetuating management group. The legal fiction that the corporation stands as a person before the law is used to convey the impression that government regulation could take away the liberties of all of us. But government has not hesitated to intervene when it appeared desirable to do so and has declared itself a partner in corporate profits. It is an outcome that places the real capital of the economy in the control of enterprises which are semipublic in character but without direct responsibility to either shareholders or government.

The differences from developments elsewhere are largely differences in degree. Corporate action cannot be completely free in the West any more than it can be completely controlled in the East. The planning mechanisms that have been set up in some Western industrial countries are intended partly to indicate what business

(Continued on page 8)

BUTTONS AND BADGES

Recently, a Chicago disk jockey conducted a rather whimsical campaign for the salvation of a nonexistent heroine. Soon "Save Rose Bimler" buttons appeared on lapels all around the Chicago area. People unfamiliar with the radio program and unaware of the joke probably accepted this as yet another of the causes supported by that miniature mobile billboard, the lapel button. Had he tried, the disk jockey probably could have collected funds on Miss Bimler's behalf—such is the persuasive power of a message to which one is repeatedly exposed, and this is the kind of exposure a lapel button can give.

This year being an election year, all of us will see countless campaign buttons extolling the virtues of the various candidates. It is not unlikely that some people view the claims of some of these candidates as being as farfetched as the disk jockey's campaign. Be that as it may, the candidates themselves do not consider the buttons the least bit humorous. Their use is serious business and has a long tradition in American politics as a means of promoting a candidate. It has become a virtually indispensable part of any major candidate's campaign and has been supplemented in recent years with toys, novelties, and other devices for attracting attention.

Promotion through lapel buttons is by no means limited to politics. Products and ideas of all kinds can be found mentioned on these little disks. Promoters of everything from Easter Seals to horse racing have used lapel pins and buttons to convey their message. Nor is their use limited to advertising. Countless humorous and novelty buttons are produced each year. Union members wear identification buttons, as do many employees of large firms. Students wear homecoming buttons, conventioners wear identification buttons, and ball fans support their favorite team by wearing buttons.

Badges and emblems are also used for many purposes. Law enforcement officers have long used them for identification. The armed forces use them to identify the branch of service, rank, unit, and so. Firemen and postmen must wear official badges and emblems. Here, too, the list of uses is long and varied.

Sales

There are 15 Illinois firms which derive a major part of their income from button and badge production. Altogether, these firms employ over 500 people, although not all of this employment can be attributed exclusively to button and badge manufacture since most of the firms produce other items as well.

Generally, these firms are small. Five of them have fewer than 10 employees and 9 of the 15 employ fewer than 15 people. Four firms have employment ranging from 20 to 100, and the largest two employ 150 to 200.

Thirteen of the state's 15 firms are located in Chicago, one is in Springfield, and one, the largest in the State, is in Greenville.

In addition to buttons and badges, several of these firms produce athletic clothing, uniforms, banners, and

flags. A few of them make novelty items of all kinds. One is a metal-stamping firm and one produces other public relations materials in addition to buttons.

Total sales of buttons and badges by these Illinois firms run into millions of dollars each year. Although it is impossible to say exactly what the total figure is—because of the other products of the firms—an estimate based on available information gives a probable range of \$5 million to \$10 million a year.

Not surprisingly, individual orders range from very small to very large. One firm indicated that it receives orders of as little as \$50 and as much as \$75,000. Some of the companies interviewed reported that sales generally seemed to be heaviest in the summer. Most said that because their customers were so varied, orders followed no regular seasonal pattern, though in some years special events require production by a specified date.

Production

Variation in investment in plant and equipment parallels the variation in employment. The total investment is between \$1.5 million and \$3 million. Three firms have estimated total capital of less than \$25,000, and nine of less than \$50,000. Four are in the \$100,000 to \$250,000 range and the two largest have between \$500,000 and \$1 million invested in capital.

Most buttons are made of plastic, steel, and tin-plated steel. Many badges and some buttons intended for only short use, for example at conventions, are made of plastic, paper, or cardboard. At the other extreme, the better badges, since they are expected to last a long time and also generally to serve as symbols of some kind of authority or rank as well as serving as identification, are usually made of more expensive metals such as brass, silver-plated brass or steel, and gold-plated or gold-filled metals.

Production of buttons involves many steps and processes, such as metal stamping, lithographing or printing, plastic laminating, and assembling. Some companies perform only some of the steps—for instance a few do not do the metal stamping—but some perform all the steps in the production process. One of the medium-sized companies questioned even makes the dyes and inks it uses.

Metal badge production also involves several steps. The first step is stamping or casting, which incorporates the legend. After this comes polishing, then perhaps plating and more polishing. When one thinks of some of the intricate badges that are worn, it is not surprising that one of the unions found in many of the plants is a jewellers' union. Polishing can be a skilled operation that is very difficult.

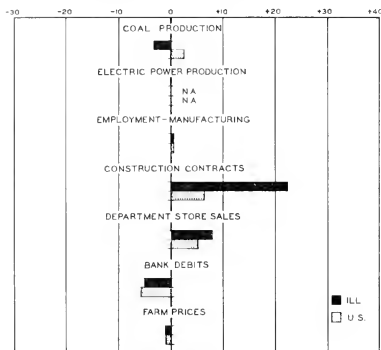
High-quality badges are expected to last for a great many years. On the other hand, buttons usually have served their purpose after a few days or months, some a few years. Political campaigns come to a definite end and buttons that are worn with enthusiasm the last week of October will be meaningless after the first week in November.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS¹

Percentage changes, April, 1964, to May, 1964



¹ Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	May 1964 (1957-59 = 100)	Percentage change from	
		Apr. 1964	May 1963
Employment—manufacturing ¹	99.3	+ 0.5	+ 2.4
Weekly earnings—manufacturing ¹	123.6 ^a	+ 0.5	+ 4.6
Consumer prices in Chicago ²	105.9	+ 0.2	+ 0.6
Life insurance sales (ordinary) ³	147.2	+ 6.8	+ 9.0
Dept. store sales in Chicago ⁴	129.0 ^b	+ 3.2	+ 16.2
Farm prices ⁵	92.0	- 1.1	- 2.1
Bank debits ⁶	164.1	- 5.0	+ 12.4
Construction contracts ⁷	130.9	+ 22.3	- 0.6
Electric power ⁸	128.9	+ 4.7	+ 14.9
Coal production ⁹	112.9	- 3.3	- 3.4
Petroleum production ¹⁰	78.0	- 0.6	- 21.2

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Agcy. Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.
^a Preliminary. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	May 1964	Percentage change from	
		Apr. 1964	May 1963
	Annual rate in billion \$		
Personal income ¹	484.8 ^a	+ 0.2	+ 5.4
Manufacturing ¹			
Sales	447.6 ^a	+ 0.3	+ 6.9
Inventories	60.4 ^{a, b}	- 0.2	+ 3.4
New construction activity ¹			
Private residential	28.8	+ 10.9	+ 6.1
Private nonresidential	18.7	+ 6.0	+ 9.9
Total public	20.8	+ 14.4	+ 16.3
Foreign trade ¹			
Merchandise exports	26.5 ^c	+ 1.3	+ 7.2
Merchandise imports	18.7 ^c	- 1.9	+ 7.4
Excess of exports	7.7 ^c	+ 9.8	+ 6.8
Consumer credit outstanding ²			
Total credit	70.9 ^b	+ 1.6	+ 9.8
Installment credit	55.1 ^b	+ 1.4	+ 11.4
Business loans ³	44.2 ^b	+ 0.7	+ 9.5
Cash farm income ⁴	29.1 ^c	- 6.3	+ 4.9
	Indexes (1957-59 = 100)		
Industrial production ⁵			
Combined index	130 ^a	+ 0.5	+ 4.7
Durable manufactures	132 ^a	+ 0.3	+ 4.8
Nondurable manufactures	131 ^a	+ 0.5	+ 4.8
Minerals	111 ^a	+ 1.3	+ 2.0
Manufacturing employment ¹			
Production workers	102 ^a	+ 0.1	+ 1.4
Factory worker earnings ¹			
Average hours worked	102	+ 0.5	+ 0.5
Average hourly earnings	118	+ 0.4	+ 3.3
Average weekly earnings	121	+ 0.9	+ 3.8
Construction contracts ⁶	161	+ 6.4	- 4.4
Department stores sales ⁷	n.a.		
Consumer price index ⁸	108	0.0	+ 1.5
Wholesale prices ¹			
All commodities	100	- 0.2	+ 0.1
Farm products	94	- 0.7	- 0.7
Foods	99	- 1.0	- 2.3
Other	101	- 0.1	+ 0.5
Farm prices ³			
Received by farmers	97	- 1.0	- 2.0
Paid by farmers	107	0.0	+ 0.9
Parity ratio	75 ^d	0.0	- 2.6

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b End of month. ^c Data for April, 1964, compared with March, 1964, and April, 1963. ^d Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1964				1963
		June 27	June 20	June 13	June 6	May 30
Production:						
Bituminous coal (daily avg.)	thous. of short tons	1,664	1,635	1,588	1,568	1,683
Electric power by utilities	mil. of kw-hr.	19,785	19,223	18,938	17,834	17,734
Motor vehicles (Wards)	number in thous.	213	212	217	210	194
Petroleum (daily avg.)	thous. bbl.	7,680	7,690	7,702	7,624	7,637
Steel	1957-59 = 100	124.5	126.1	129.7	131.2	132.2
Freight carloadings	thous. of cars	609	603	611	580	577
Retail sales	mil. of dol.	5,021	5,140	5,051	5,149	5,119
Commodity prices, wholesale:						
All commodities	1957-59 = 100	100.4	100.2	100.1	100.1	100.1
Other than farm products and foods	1957-59 = 100	101.1	101.1	101.1	101.0	101.0
22 commodities	1957-59 = 100	95.3	95.2	95.1	95.2	94.8
Finance:						
Business loans	mil. of dol.	38,748	38,885	38,234	38,243	38,321
Failures, industrial and commercial	number	262	238	252	293	236

Source: Survey of Current Business, Weekly Supplements.

^a Monthly index for June, 1963.

RECENT ECONOMIC CHANGES

Changes in the Financial Market

The year 1963 shaped up as another year of heavy overall demand for funds in the financial markets. The pattern of sources, uses, cost, and availability of capital funds last year was quite similar to that of 1961 and 1962 but differed significantly from previous postwar periods of business expansion. A record \$62 billion of funds was channeled through credit and equity markets with only modest upward pressure on long-term interest rates, as rising credit demands were met by continued large flows of savings.

With federal monetary and debt management policies oriented toward the dual goals of encouraging domestic growth while protecting the international position of the dollar, in an economy of persistently high unemployment and relatively stable price levels, a degree of credit ease for economic expansion was in existence. In such a climate mortgages continued to dominate the flow of private capital funds to an even greater degree than in other recent years, accounting for almost 75 percent of total private long-term capital flows, as indicated in the accompanying chart. This continued expansion in mortgage flows in recent years contrasted with reductions in net corporate security issues and federal borrowing, and substantially surpassed increases in consumer credit, business loans, and state and local government borrowing.

The record net mortgage flow of nearly \$30 billion in 1963 was 17 percent greater than in 1962, the previous peak year. Business and other private short-term loans reached a new record of \$15.3 billion, 12 percent above the 1962 figure, as working capital needs of corporations and unincorporated enterprises expanded along with the general economy. However, corporate demands on the long-term capital markets declined in 1963, as in the preceding year, reaching the lowest level since 1950. An

additional decline in net corporate security issues was concentrated in equities and stemmed mainly from the increased liquidity of corporate businesses.

State and local governments increased their borrowing in 1963; the volume of new issues set a record and refundings also increased. By contrast, federal government borrowing declined, despite the large deficit in the federal budget. Finally, foreign borrowers obtained \$3 billion, 30 percent more than in 1962, as credit ease in this country prompted an upsurge in foreign security issues and short-term borrowing in the first half of the year.

Dividends and Personal Income

Aided by larger cash flows, partly generated by changed depreciation rates and the investment credit on capital spending, dividend payments have increased faster than other types of personal income since 1950. Since 1950 personal income has risen from \$208 billion to nearly \$480 billion while dividends have gone from \$7.5 billion to \$19.1 billion.

Dividend payments lagged behind the growth of personal income in the early 1950's, primarily as a result of the excess profits tax which was in effect from mid-1950 to 1954. During that time dividend payments rose only 20.5 percent whereas all other personal income increased 40.1 percent. Some of this loss was recouped during the 1954-57 business expansion when dividends rose 33 percent while other income climbed only 22 percent, but much of that gain was lost during the following business recession when dividend payments declined 7 percent while personal income was rising nearly 4 percent.

The subsequent recovery in dividend payments during 1959-60 was interrupted twice, once by the steel strike of 1959 and again by the 1960-61 recession. The 1961-64 upswing, however, has been a relatively long uninterrupted period of prosperity during which dividend payments have climbed 32.6 percent while all other personal income has moved only 18.7 percent higher. Further dividend increases in the second half of 1964 are also quite probable, since profits are expected to be even higher because of the recent tax cut, the general stabilization of prices, and a rising sales volume.

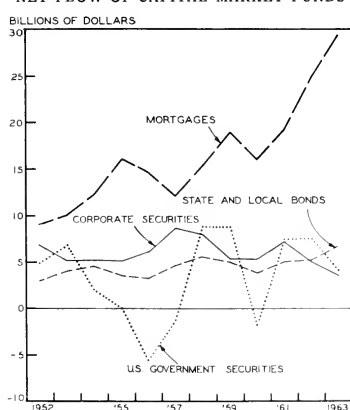
Public and Private Debt

Outstanding debt rose \$75 billion during calendar 1963 as consumers, businesses, and governmental units continued to borrow more than they repaid; the total amount owed by all persons and governments reached \$1,100 billion at the end of the year.

During 1963 the increase in the net indebtedness of the federal government was \$5.3 billion as compared with an \$8 billion rise in 1962. Also, substantially smaller additions to debt were recorded for state and local governments, with a total advance of only \$6 billion in 1963 as compared with one of almost \$9 billion in 1962.

Most private debt categories, however, grew at a faster pace in 1963 than in the previous year. Individuals added \$14.5 billion in mortgage debt on one-to-four-family homes, 12 percent more than the increase recorded in 1962. Consumer credit rose \$6.5 billion, \$1.3 billion more than in the previous year. Individual farmers and non-farm proprietors expanded their obligations by \$15.5 billion, \$2 billion more than in 1962. And both long- and short-term corporate debt rose at a faster pace last year than in 1962.

NET FLOW OF CAPITAL MARKET FUNDS



Source: National Association of Mutual Savings Banks, *Mutual Savings Banking Annual Report*, May 1964, p. 4.

THE KENNEDY ROUND: A TURNING POINT?

ROBERT W. GILLESPIE, Assistant Professor of Economics

Even in this era of international conferences and meetings the "Kennedy Round" of tariff negotiations stands out because of the complexity and scope of the economic issues to be dealt with. In brief, the goals set for the negotiators are to reduce average nonagricultural tariffs of the major trading nations by 50 percent; to identify and eliminate as many of the non tariff barriers to trade as possible; to harmonize and liberalize national agricultural support policies in order to permit freer international trade in agricultural commodities; and to shift the emphasis of the economic relations of developed countries with the underdeveloped countries from direct aid to trade, by permitting enlarged imports of their products into the developed countries.

The forces that brought this conference into being are varied and interrelated, but two deserve special recognition. One of these was the establishment of EEC (the European Economic Community or Common Market) in 1958 and its subsequent evolution—particularly the changes in tariff structures associated with it. By 1970, at the latest, and perhaps by as early as 1967, all internal tariffs will have been reduced to zero and a common schedule of external tariffs based on average member-country rates in 1958 will be in force. This restructuring of tariffs is now approximately two-thirds completed. The proposed structure, if unchanged, will result in a substantial reshaping of international trade. In particular, the traditional exporters to the EEC nations (among them the United States) see a serious reduction of their exports to this market.

The second influence favoring the negotiations has been the continuing United States balance-of-payments problem. By 1960 this problem was influencing the formation of our economic policy, both domestic and foreign; and the continuing implementation of the EEC tariff goals made some action advisable. In 1961 the EEC made a unilateral 20 percent reduction in the proposed level of their ultimate common tariffs in order to show that the motivating spirit of the EEC was not inward-looking and protectionist. This reduction, however, was made contingent upon subsequent reciprocal reductions by their trading partners. At that time the tariff-cutting powers held by President Kennedy were insufficient to allow matching these cuts, but he accepted in principle this offer to negotiate reductions. He subsequently requested the necessary tariff-cutting powers and they were granted by Congress in the Trade Expansion Act of 1962.

This act gave the President power to cut all tariffs by 50 percent and to eliminate tariffs completely on certain items. Among these were commodities which had only very small tariffs and tropical agricultural products which are not produced here in any significant quantity. In addition, for those products of which 80 percent of world exports were accounted for by the United States and the EEC, tariffs could also be cut to zero. At the time of passage in 1962, this last power appeared to be most important. However, the 80 percent figure was arrived at on the assumption that England would be a member of the EEC. With this not the case, only a very few products can meet the 80 percent rule, and consequently the general 50 percent cutting power becomes the most important for United States negotiators.

Although there are 62 member nations of GATT—and most will participate in the conference—the main

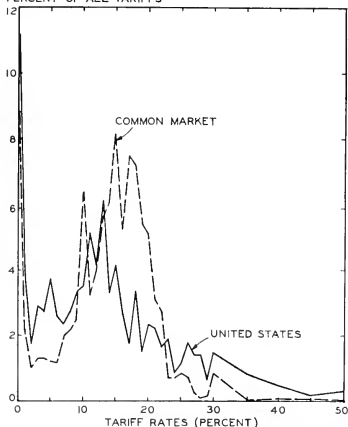
focus of the negotiations will be between the United States and the EEC; consequently, attention will be confined to the issues between these two. It should be noted, however, that since the basic feature of GATT is the most-favored-nation principle, tariff cuts will extend to all members. Although the negotiations will last one to two years, some major issues have already been outlined.

The Tariff Disparities Issue

The general method for cutting industrial tariffs was tentatively established as an across-the-board cut for all items, or in the terminology of the conference, linear tariff reductions. This method is new to tariff negotiations and it was devised to simplify the negotiating procedures. In previous GATT rounds, cuts had been negotiated item by item and country by country—a very slow process. However, the EEC has subsequently wished to modify this linear approach where for specific items tariffs of countries were greatly different. They argue that where one country's tariff is very high, a 50 percent cut will still leave a larger protective effect than will remain for the low-tariff country. This suggested modification has been labeled the "tariff disparities" issue.

The EEC would like to have a disparity defined as existing when a tariff is both twice as high and at least 10 percentage points higher than the tariff of another country. In such cases the lower tariff would be cut by a smaller percentage than the higher tariff. Although it was conceded that some disparities may call for a departure from the linear method, the United States wishes to restrict the definition of a disparity to situations in

U.S. AND COMMON MARKET TARIFF RATES*
PERCENT OF ALL TARIFFS



* Classified according to the Brussels Tariff Nomenclature. Do not include 8 higher rates for the U.S. and 8 higher rates for the Common Market.
Source: First National City Bank, *Monthly Economic Letter*, May, 1964, p. 54.

which the low-tariff country is a major exporter of the product and the high-tariff country's protection is significant in limiting imports of the commodity. A large volume of imports would be taken to indicate that the high tariff did not have any "water" in it so that a 50 percent cut would substantially reduce its protective effect. The basic problem is that the height of a tariff is not necessarily a good measure of the protective effect it affords.

The chart indicates how this issue would apply to existing tariff structures. The fact that the United States has more very high tariffs than the EEC would mean that the EEC, using only their criterion, would claim more disparities against the United States than vice versa.

There is also concern that if the EEC criterion is used without the provision that the low-tariff country also be a major exporter, the effect will be inequitable for the major exporting country. For example, under the EEC criterion, watches would certainly be claimed as a disparity against the United States, and the EEC would be permitted a smaller reduction. The smaller reduction by the EEC would not directly affect the United States, but Switzerland, the major exporter, would suffer.

Exceptions and Nontariff Barriers

The final settlement of this issue is still being negotiated and it may not be decided until after each nation presents its list of exceptions. These lists designate items which each member wishes to reserve from negotiations for reasons of overriding national interest, such as national defense or severe hardship. The negotiators tend to tie the exceptions lists and disparities issues together, because if the disparities formula is decided before the lists are presented, a country could then place items that would be disparities on its list of exceptions. The date for submitting the exceptions list has been set as November 16—safely after the United States and British elections.

These lists themselves will constitute an issue for negotiation. In the preliminary negotiations it was agreed that there should be only a bare minimum of exceptions and that these should be subject to justification.

The inclusion of nontariff barriers to trade in the negotiations is without precedent, but success in this area could also have a great impact on liberalizing trade. These barriers are difficult to quantify and are a very heterogeneous group. Some examples are the "Buy American" legislation, which affects purchases of the United States government; quotas on specific imports (for example, the United States quota on crude oil imports); and the European practice of remitting to manufacturers the turnover tax on goods which are exported. The United States makes no such distinction in tax policy between domestically consumed goods and exported goods.

Whether or not great success is achieved in this area, it is a significant step forward that countries now explicitly admit that there exists a great variety of techniques for restricting trade other than tariffs and are willing to negotiate their removal.

Treatment of Agricultural Trade

The negotiations on agricultural trade promise to be the most difficult and crucial of all for several reasons. In most countries the interrelation between trade policy and domestic agricultural policy has serious political implications. The United States has made known that it will sign no agreement unless there is a satisfactory solution of the agricultural trade negotiations. And finally, the EEC nations themselves have not agreed upon all the important details of their common agricultural policy.

The EEC nations have agreed that their generally higher-cost agriculture is to be provided protection from imports. The machinery to be used will be variable levies; these tariffs will be adjusted day by day so as to bridge the gap between world prices and the EEC domestic support prices. At present, domestic support prices vary widely and the final step in establishing the common agricultural policy is the determination of "target" prices for each agricultural commodity. Many of these prices have been established, but negotiations within the EEC to establish grain prices, which are the key to the whole structure, are proving very difficult. Originally, cereal prices were to be agreed upon by July 1, but—much to the distress of the EEC Commission—the EEC Foreign Ministers have postponed this decision until December.

The major problem is caused by the large difference between grain prices in France, the lowest-cost producer in the EEC, and grain prices in Germany, the highest-cost producer. Target prices set close to German prices would mean higher food prices for consumers in other EEC countries; target prices set close to French prices would force a reduction in the grain production of German farmers. Also, prices set close to the German level would induce increased production in other EEC countries, particularly France, with a consequent fall in grain imports. The table gives estimates of the impact on imports in 1970 of the EEC grain policy using several assumed target prices. United States exports of wheat and feed grains to the EEC run approximately 4½ million tons a year, approximately 40 percent of total EEC imports of these commodities. This gives the United States, along with other grain-exporting countries, a keen interest in the final target prices decided upon by the EEC.

The United States would like to reach an agreement with the EEC which would guarantee continuing access to the EEC agricultural market and on a basis that would assure some share in the probable growth of that market. Such an agreement has recently been negotiated with Great Britain for United States grain exports.

Trade and Development

The final goal of the conference—improving the trade opportunities for the less developed countries—has received less attention to date than the other goals. Con-

EEC GRAIN PRODUCTION, CONSUMPTION, AND TRADE, 1957-59 AND PROJECTIONS FOR 1970*

Item	1957-59 average	Projections for 1970, with			
		I Continuation of national policies ^b	II EEC policy and German price level	III EEC policy and average of German-French price level	IV EEC policy and French price level
(Million metric tons)					
Production . . .	50.5	64.9	69.4	67.9	65.8
Consumption . .	59.8	73.7	72.8	73.7	74.6
Balance	-9.3	-8.8	-3.4	-5.8	-8.8
Total EEC imports ^c	11.4	10.9	3.4	5.8	8.8

* Excludes rice.

^b Projections by UN Food and Agriculture Organization.

^c Gross import projections assume gross exports at the same level as 1957-59 (2.1 million tons) in Situation I and at zero in all other situations. Source: U.S. Department of Agriculture, *Foreign Agricultural Trade of the U.S.*, January, 1963.

sequently, issues here are less well defined. Some modest ways in which this goal could be implemented would be for the developed countries to remove all tariffs and internal excise taxes on tropical agricultural imports and to be less strict regarding most-favored-nation treatment when groups of less developed countries wish to form their own common markets or free trade areas.

Politics enters here too, because at present the EEC gives preferential treatment to the tropical products of the 18 African states associated with the EEC—mainly former French colonies. If the EEC were to eliminate tariffs for these products on a nondiscriminatory basis, the ties of these African states to the EEC would be weakened.

Any steps which go further than those just mentioned are unlikely to be taken by the GATT conference. However, the recently concluded United Nations Conference on Trade and Development established a permanent UN body which will make a continuing study and prepare recommendations on how to facilitate economic development by trade.

Conclusion

The foregoing discussion indicates the complexity of the issues facing the negotiators, so it should not be surprising if the negotiations are difficult and slow. Successful accomplishment of the goals of the conference will have substantial long-run benefits for all GATT members. It will produce an improved international division of labor along the lines of greatest comparative advantage. It is granted that there may be problems of adjustment for particular firms and industries during the five-year or longer period over which any major tariff reductions will be put into effect. But both the EEC and the United States, under the Trade Expansion Act, have established methods for aiding the shift of labor and capital from noncompetitive to productive uses.

Greater international competition should also result, and the benefits need not be any less when the competitive pressures come primarily from abroad rather than from domestic sources. This is, of course, provided that the economy has not lost all ability to adjust to change.

To make an overall assessment of the probability of success of these negotiations is very difficult. Two years ago the probability would certainly have been high. At that time the EEC appeared eager to negotiate substantial across-the-board cuts, and the passage of the Trade Expansion Act in 1962 represented a sweeping victory for a liberal trade policy in the United States. Since that time the mood seems to have changed. The EEC now wishes to qualify substantially the linear approach and, at the urging of France, would not accept a 50 percent cut in tariffs as a "goal" of the negotiations, but rather only as a "working hypothesis." Also, the United States demand that a satisfactory solution of agricultural trade be *a sine qua non* for any settlement at all places a heavy burden on the negotiations.

In addition, these negotiations have far greater implications than economic ones, because any increase in economic interdependence through greater trade would facilitate, if not encourage, political cooperation. Conversely, if President de Gaulle really wishes Europe to be a third force in world politics, a corollary goal would then be substantial economic independence. The conference is thus, in a sense, a test as to whether President de Gaulle's vision of Europe as a third force or President Kennedy's vision of an Atlantic Community is to prevail.

Basis for Coexistence

(Continued from page 2)

must do to foster steady growth and to impress upon business its ultimate responsibility to the community. In this country, the greater degree of detachment from public responsibility and control has stimulated fears of extreme economic and political instability; investment and employment might drop too sharply in a recession and the growing strength of an "industrial-military complex" is said to represent a trend toward a corporate state.

Enforcement of Social Responsibility

In effect, the whole world is engaged in a process of working out what types of facilities are to be privately owned and used. The world does not want a doctrinaire answer. The conditions that will be accepted are those which will achieve efficiency in production and still preserve the rights and freedom of individuals. Nobody advocates denial of property rights for goods in the hands of the consumer. The important differences of opinion concern the basic productive facilities of the economy. Since immediate operating control must in any case be vested in the managers of enterprises, the issue really concerns the way in which operating policies will be decided and the degree to which management will be held socially responsible for its actions.

Communist doctrine claims that its system holds the winning hand. Since the state has taken over direct ownership, there is supposed to be no incentive for the adoption of antisocial practices. Nevertheless, the owner's control remains imperfect, and penalties against black-market operations for personal gain are severe.

The underdeveloped countries present no uniform pattern. Generally there is some conflict arising from needs and obstacles to progress. Governments must assume a large measure of responsibility for promoting development but have very limited resources, especially of foreign exchange. They want help but do not want to have inadequate exchange drained off into high profits of foreign corporations. Hence, they frequently both court foreign investment and oppress successful enterprises.

In the Western industrial countries, there is also a certain ambivalence of relations. The greater freedom allowed enterprises to operate and develop as they see fit opens the door to monopolistic pricing and other objectionable practices, so governments stand ready to prohibit these as well as to aid and protect industry when necessary. They are willing to incur deficits to promote growth but do not want them drained off into excess profits or savings of special groups. Therefore, they both stimulate activity and try to hold down prices, profits, and the incomes of the wealthy. There is constant experimentation with procedures to permit the widest latitude for initiative without relaxing too much the enforcement of social responsibility.

What seems to predominate is the pragmatic approach to achieving optimum solutions under the given conditions. In the drive for efficiency, leaders typically find themselves with less authority than they desire, and the terms on which they may succeed are set by the technical requirements for development. When in conflict with these, efforts to control or coordinate are likely to prove self-defeating, however colorful their ideological trappings may be. Since technology sets the same rules for everybody, all must conform to similar patterns, and in this universal similarity exists the basis for coexistence as well as for economic progress.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Widows' Pensions

In a recently reported survey by the National Industrial Conference Board, it was discovered that only 10 percent of 1,213 privately financed pension plans studied made any provision at all for the widows of employees and relatively few of these provided benefits for widows of employees who died before actual retirement.

Of the pension plans studied, only 1 percent of those negotiated by unions for their members included widows' pensions and only 5 percent of all manufacturing concerns studied had pension plans that included benefits for widows. In contrast to this low rate of providing benefits to widows of manufacturing employees, persons who worked for life insurance companies or banks had a much greater chance of having widows' benefits included in their pensions. Of the insurance companies and banks studied 23 and 39 percent respectively included such benefits. Another point brought out by the study was that in all types of business, widows' pensions were no more common among contributory plans than among noncontributory plans.

Social Security Expansion

Social security is one of the fastest-growing federal government programs, with more than 75 million wage and salary workers and 5.5 million employers participating in the program and a total yearly outlay second only to that for national defense. Benefit payments under the Old Age and Survivors Insurance program (OASI) will total about \$15.4 billion this year, and contributions to the trust fund are expected to climb to \$15.8 billion, as indicated in the chart.

Expenditures for OASI have exceeded receipts in five of the years since 1958. The assets of the trust fund have

fallen from a peak of \$23 billion in 1957 to \$19 billion at the end of 1963. Social security tax rates are to increase 1 percent each for employees and employers by 1968 and will bring the percentage withheld from a person's paycheck to 4½ percent on a taxable earnings base of \$4,800. When the program was first established by Congress, and for the first 12 years of the program, the tax rate was only 1 percent each on the employee and the employer on a maximum tax base of \$3,000.

Among numerous suggestions for liberalizing social security, the one with the best chance of obtaining the approval of Congress this year is an across-the-board increase in benefits for retired workers, survivors, and disabled participants. In order to finance this proposed increase in benefits and to balance the yearly receipts and expenditures of the program, Congress is considering raising the tax rate an additional one-fourth of 1 percent each on employer and worker and raising the maximum tax base from \$4,800 to \$5,400.

City Employment and Pay Rates Increase

The number of people employed full-time by municipal governments increased 4 percent and the amount spent by municipalities on payrolls rose 7 percent during 1963. The number of persons employed full-time, other than for city-operated schools, totaled 1.3 million, an average of 112 employees for each 10,000 inhabitants. However, the ratio of municipal employment to population was considerably higher in larger cities; the five largest municipalities in the nation averaged 190 employees for each 10,000 inhabitants as compared with an average of only 99 per 10,000 persons in municipalities of 50,000 to 100,000. Much of the difference was accounted for by the number of operating and protective persons employed. The number of employees in variable city functions such as health, hospitals, airports, and public housing ranged from 75 per 10,000 in the five largest urban areas to 14 per 10,000 in the 50,000-100,000 size; the number of police ranged from 35 per 10,000 in the five largest metropolitan centers to 18 per 10,000 in cities of 50,000 to 100,000.

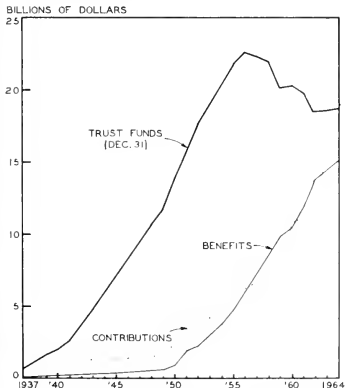
Monthly earnings of full-time city government employees in common city functions averaged \$439 a month, but the average in the five largest municipalities was \$529 a month as compared with \$426 a month for those working in municipalities of 50,000 to 100,000 persons.

World's Cropland

Of the earth's surface of nearly 33 billion acres, approximately 3 billion are currently being utilized for agricultural crops, according to the United States Department of Agriculture. About 71 percent of the yearly harvested acreage of 2.3 billion is used to produce grain; wheat alone accounts for over 22 percent. Nearly 13 percent is planted in rice, the world's second largest crop. Roots and tubers, a category which includes potatoes, accounts for 5 percent of all cropland; and land used to produce sugar takes up 1.5 percent of the available acres.

Another 7 percent of the world's cropland is used to grow oilseeds (principally soybeans) and nearly 5 percent to produce fibers (mostly cotton). Beverage crops such as coffee, tea, and cocoa, though looming large in world agricultural trade, account for only 1 percent of the cropland area.

OLD AGE AND SURVIVORS INSURANCE



Source: First National Bank of Boston, *New England Letter*, June, 1964.

LOCAL ILLINOIS DEVELOPMENTS

Job Openings Increase in 1963

The Illinois State Employment Service reports that numbers of unfilled nonagricultural job openings on file rose in 1963 (see chart). This rise took place mainly during the second half of the year. The average number of unfilled openings in 1963 was 9,700, about 6 percent above the corresponding figure for 1962, and at the end of the year it was almost double the number available at the beginning. Consistently high levels of unfilled job openings are shown also for the first four months of 1964.

The increase in job openings has reflected generally favorable economic conditions. In late 1963, seasonal increases in trade and post office hiring were supplemented by important nonseasonal increases in hiring by three major industries — nonelectrical machinery, primary metals, and printing and publishing. Through April, 1964, rates of hiring have remained high, except that the number of job openings dropped sharply in February as a result of a labor dispute in a major machinery firm. Significant gains in manufacturing jobs have been maintained since mid-1963.

Community Mental Health Grants

Governor Otto Kerner has announced that over \$3 million is to be spent for mental health purposes in Illinois during fiscal 1965. Most of the financing is to be effected through the state mental health fund, with about \$300,000 coming from federal funds. Emphasis is to be placed also upon local participation in program financing.

Of the state funds, over \$2.5 million will be spent for the operation of 49 community mental health clinics, including two new clinics at Evanston and Belleville. A nearly equivalent amount is to be provided from local funds. A large increase in the number of new patients served in 1963 has indicated a need for enlarged local

mental health services. About \$522,000 is to be spent by the State for 24 programs to train the mentally retarded. Local funds for this purpose are to provide an additional \$1.1 million. Finally, slightly over \$82,000 in state funds will be used for two rehabilitation centers, training programs, and mental health education.

Illinois Participation in Space Programs

The Illinois Department of Labor reports that the State, with outstanding capabilities in the electronics field, has favorable prospects for increasing her share of national contracts for space research and development. On the basis of the state's current rate of participation in contract allocations, Illinois may expect to receive about 1 percent of the estimated \$6.6 billion to be spent annually from fiscal 1964 to 1970 by the United States government. Since 1953, a declining participation in defense contracts has represented heavy losses for Illinois.

The state's position for participation in space contracts is based upon a heavy orientation of electronics firms toward research and development; adequate professional personnel; a high-quality, semiskilled work force; a proximity to markets and sources of supply; and supporting institutional facilities. Within the aerospace program, numerous Illinois electronics firms are now engaged in basic research and in producing equipment for rockets, probes, and spacecraft.

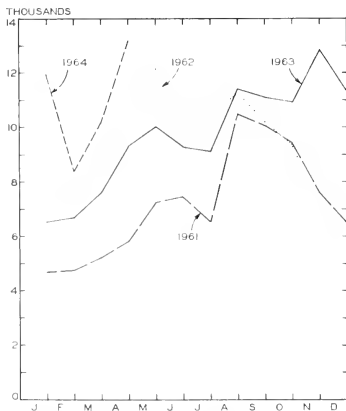
Contracts are awarded through competitive bidding. A number of services are available to aid firms seeking contracts. About 45 Chicago area companies list their capabilities with the Mayor's Committee for Economic and Cultural Development. The committee matches these capabilities with items for which bids are sought and also provides other assistance to simplify the bidding process. The Chicago office of the Small Business Administration maintains extensive listings of potentialities of small firms seeking subcontracts. In addition, the Chicago Association of Commerce and Industry and the Illinois Board of Economic Development provide informational services to encourage space research and development.

Chicago Area Community Renewal

The Chicago Department of City Planning has recently announced a long-term program for community renewal and other capital improvements. The new program is to extend through 1975 and supplement current urban redevelopment activities. In doing so, it will raise further the standards of existing neighborhoods and improve opportunities for industry location in the metropolitan area. The expected net project costs of \$300 million are to be financed by \$100 million in local funds and \$200 million in federal funds.

An expected \$180 million, or 60 percent of total allocations, is to be directed into community renewal and elimination of substandard housing units. Emphasis is to be placed upon rehabilitation and limited clearance rather than on total redevelopment in such neighborhoods. Other allocations for housing purposes are \$30 million to clear concentrated slum areas and \$15 million to clear non-residential areas for the construction of new housing units. A total of \$60 million is expected to be spent to make about 1,000 acres of land available for industrial development or expansion. Finally, \$15 million is to be set aside for special unspecified projects.

JOB OPENINGS



Source: Illinois Department of Labor.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1964

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$57,232 ^a	1,469 3 ^a			\$27,279 ^a	\$19,596 ^a
Percentage change from	Apr., 1964	+63 3	+0 2		+8	-5 0	-4 6
	May, 1963	+36 9	+7 8		+11	+12 4	+2 6
NORTHERN ILLINOIS							
Chicago		\$41,332	1,032 4			\$25,486	\$16,638
Percentage change from	Apr., 1964	+79 8	-0 1		+9	-5 3	-5 2
	May, 1963	+61 8	+6 1		+11	+13 2	+2 0
Aurora		\$ 2,609	n.a.			\$ 99	\$ 240
Percentage change from	Apr., 1964	+110 9			n.a.	+2 2	+3 4
	May, 1963	+156 3				+5 3	+15 9
Elgin		\$ 713	n.a.			\$ 58	\$ 230
Percentage change from	Apr., 1964	+59 5			n.a.	-3 3	+11 7
	May, 1963	-67 5				-3 3	+15 6
Joliet		\$ 1,089	n.a.			\$ 104	\$ 136
Percentage change from	Apr., 1964	+9 1			+11	+2 0	-8 1
	May, 1963	-42 0			+6	-3 7	+10 6
Kankakee		\$ 234	n.a.			n.a.	\$ 84
Percentage change from	Apr., 1964	-26 2			n.a.		-8 7
	May, 1963	-65 3					+2 4
Rock Island-Moline		\$ 1,349	55 7 ^b			\$ 159 ^b	\$ 210
Percentage change from	Apr., 1964	-30 0	+9 6		n.a.	+7 4	-16 3
	May, 1963	-9 5	+38 6			+10 4	+0 0
Rockford		\$ 1,711	68 4 ^c			\$ 237	\$ 321
Percentage change from	Apr., 1964	+6 2	+0 0		+11 ^c	-2 5	+1 3
	May, 1963	-43 1	+12 9		+10 ^c	+4 9	+7 0
CENTRAL ILLINOIS							
Bloomington		\$ 629	13 1			\$ 105	\$ 180
Percentage change from	Apr., 1964	+42 3	-5 1		n.a.	-3 7	+2 3
	May, 1963	+29 2	-9 7			+2 9	+11 1
Champaign-Urbana		\$ 897	22 2			\$ 109	\$ 173
Percentage change from	Apr., 1964	+9 8	-1 3		n.a.	-0 0	-9 4
	May, 1963	+54 9	+16 2			+3 8	-3 9
Danville		\$ 316	21 2			\$ 57	\$ 92
Percentage change from	Apr., 1964	-70 1	-4 1		+4	-0 0	-4 2
	May, 1963	+74 6	-14 2		+6	-3 4	-0 0
Decatur		\$ 2,884	44 3			\$ 139	\$ 161
Percentage change from	Apr., 1964	+283 0	-0 9		+4 ^c	-9 2	-8 5
	May, 1963	+402 4	+13 0		+3 ^c	+1 5	-0 6
Galesburg		\$ 248	11 5			n.a.	\$ 54
Percentage change from	Apr., 1964	+89 3	-12 2		n.a.		-3 6
	May, 1963	+68 7	+3 6				-6 9
Peoria		\$ 1,180	76 3 ^a			\$ 314	\$ 379
Percentage change from	Apr., 1964	+139 8	+1 2		+5	+0 3	+1 6
	May, 1963	+98 3	+17 0		+3	+5 7	+8 0
Quincy		\$ 418	16 0			\$ 62	\$ 88
Percentage change from	Apr., 1964	+84 1	+6 0		n.a.	-0 0	-4 3
	May, 1963	+44 0	+18 5			-4 6	-7 4
Springfield		\$ 1,131	49 5			\$ 168	\$ 401
Percentage change from	Apr., 1964	+79 2	+6 5		+11 ^c	-1 2	+3 9
	May, 1963	-30 3	+12 5		+5 ^c	+5 7	-3 6
SOUTHERN ILLINOIS							
East St. Louis		\$ 39	17 5			\$ 127	\$ 88
Percentage change from	Apr., 1964	-53 0	-1 7		n.a.	-3 1	-1 1
	May, 1963	+0 0	+6 1			-8 0	-5 4
Alton		\$ 298	26 3			\$ 54	\$ 54
Percentage change from	Apr., 1964	-34 1	-5 7		n.a.	+1 9	+28 6
	May, 1963	+37 3	-1 9			-8 5	+28 6
Belleville		\$ 183	15 0			n.a.	\$ 68
Percentage change from	Apr., 1964	-57 8	+0 7		n.a.		+4 6
	May, 1963	-77 5	+6 4				+6 3

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source.⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending May 22, 1964, and May 24, 1963.

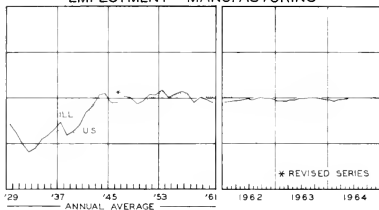
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

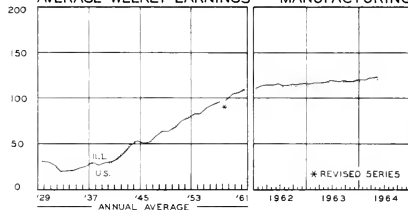
Illinois Historical Survey
416 Lincoln Hall

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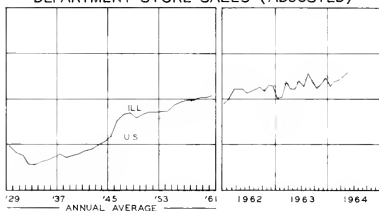
EMPLOYMENT - MANUFACTURING



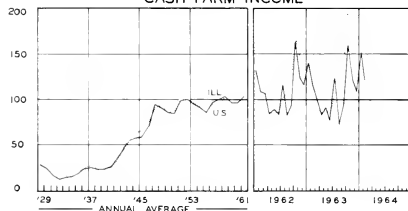
AVERAGE WEEKLY EARNINGS - MANUFACTURING



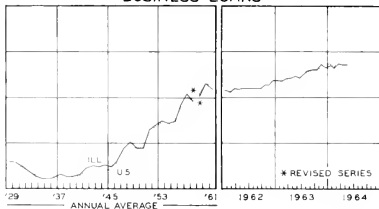
DEPARTMENT STORE SALES (ADJUSTED)



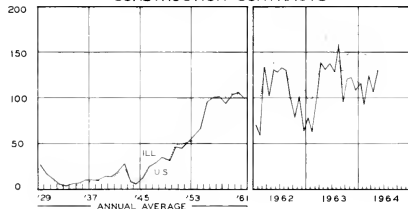
CASH FARM INCOME



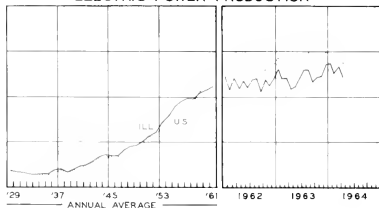
BUSINESS LOANS



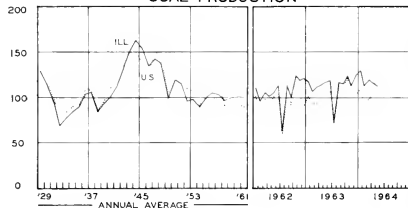
CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



COAL PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

SEPTEMBER, 1964

NUMBER 8

HIGHLIGHTS OF BUSINESS IN AUGUST

The economy continued its strong upward movement in August with a booming automobile industry and record capital expenditures assuring rising activity and general optimism during the election campaign and probably for some time afterwards. Bolstered by an earlier-than-usual model change and major restyling, auto production in August was running about a third above the year-earlier figure. Steel output, pushed by the requirements of the auto industry and by the high business outlays for plant and equipment, was up more than a third from the August, 1963, level.

Some signs of pressure on prices were beginning to appear. The wholesale price index was up only 0.3 of a point at the end of August as compared with the year-earlier figure, but the index of selected industrial raw materials had risen 1.4 percent. A number of industrial firms reported price increases in their products. In July the consumer price index advanced 0.3 of a point to a record 108.3 percent of the 1957-59 average. Sharp increases in the prices for meat, fresh fruits, and vegetables were primarily responsible.

Consumer Debt Still Climbing

The expansion of short- and intermediate-term consumer debt continued in July, going up \$673 million on a seasonally adjusted basis to a total of \$72.5 billion. The increase consisted of \$483 million in instalment debt and \$190 million in single-payment loans, charge accounts, and service credit. Automobile paper accounted for \$215 million and personal loans for \$152 million of the expansion in instalment debt.

Total instalment debt at the end of July amounted to \$56.5 billion, about 9 percent above the total outstanding a year earlier. This rate of increase was about half again as great as that for personal income over the year.

Capital Outlays Continue Rise

The August survey of projected expenditures on new plant and equipment by business firms indicates that they plan to spend more in the second half of this year than in the first six months. Outlays in the third quarter are expected to rise from the record seasonally adjusted annual rate of \$43.5 billion in the second quarter to \$44.6 billion in the third quarter and \$46.1 billion in the fourth quarter. This would carry total capital spending for 1964 to a record \$44.2 billion, 13 percent more than in 1963.

The May survey had projected an increase of 12 percent over 1963 and that of February had indicated a rise of 10 percent. The upward revision from the May survey was primarily the result of increases expected by non-manufacturing industry groups.

Capital outlays by manufacturing firms are expected to total \$18.3 billion in 1964, about one-sixth more than in 1963. In nonmanufacturing, the sharpest increase over 1963 is projected by transportation companies, the result of large equipment purchases. Railroads anticipate an increase of one-third over last year and other transportation firms expect to spend one-fifth more. Other non-manufacturing groups — commercial, communication, public utility, and mining — plan to spend about 8 percent more for plant and equipment than they did in 1963.

Auto Settlement

An agreement between the United Auto Workers Union and Chrysler Corporation just before the September 9 strike deadline appeared not only to have ended the threat of an indefinite interruption of production but also to have set the pattern for new contracts with the other auto companies. The value of the contract was estimated at 53 cents an hour for each worker by the union and as high as 57 cents by the company.

An early retirement provision will give the average worker with 30 years service a monthly company-paid pension of \$381 if he retires at 60. At 62 the company-paid pension will drop, but Social Security will hold his combined pensions at the same figure until he is 65, when they will decline to \$316. Pensions of workers now retired will be raised \$1.45 a month per year of service.

Another provision raised the paid relief time of workers on assembly lines and automatic machines from 24 minutes to 36 minutes daily. An extra week of vacation pay and two additional paid holidays were provided. The company agreed to pay all the cost of its life and accident insurance program and of hospital and medical insurance for retired workers, instead of the present half payment for both types.

The annual pay increase, which amounts to 2.5 percent or 6 cents an hour, whichever is greater, was continued with the provision that in the first year of the contract it be diverted to help pay for the other gains and be increased to 2.8 percent in the third year. Thus the workers will get no direct pay raise in the first year.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The Review will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Economic Importance of Waste

Such occurrences as earthquakes in Alaska or hurricanes in Florida may lead people in other places to congratulate themselves on their escape from disaster. Damages are usually included in news reports, perhaps running to hundreds of millions of dollars; the areas are declared "disaster areas" for federal assistance; and it is made to appear that the country has suffered losses of startling magnitude.

No doubt these events are indeed disasters for some who are involved in them. For the economy as a whole, however, the result is no loss but rather a gain. It is literally a case of "lose more, have more" in an economy with unutilized manpower and capacity.

The way this works out when idle resources are available is now a commonplace of elementary economics, though many people, including some who really know better, refuse to accept the idea. The investment needed to rebuild and repair represents a definite contribution to economic prosperity. It raises the incomes of workers, the consumption of their families, and the sales and profits of business concerns. The destruction is soon remedied, and the higher rate of production provides not only for this remedy but for the welfare of all who benefit from the additional employment it creates.

Programs That Promote Prosperity

The same effects are realized from many other kinds of expenditures devoted to destructive, wasteful, or uneconomic purposes. Anything that transfers funds to buyers without an offsetting withdrawal from the income stream spurs activity. As we are currently witnessing, tax cuts without corresponding reductions in government spending help to push the economy forward.

War is potentially the most destructive force of all. We decry it as senseless and immoral but regard preparedness as a necessity. Our Cold War programs have undeniably bolstered the postwar economy, since \$60 billion a year represents a potent influence. It is always possible to say, of course, that if we had been relieved of the need for military programs, we could have spent these funds for other urgent purposes, but the practical feasibility of reaching agreement on alternatives cannot be demonstrated. Hence, there is no way of knowing just how

important an influence these programs have been in maintaining the long postwar prosperity.

In comparison, expenditures on foreign aid have been a minor factor, but they, too, must be counted on the plus side. It is simply incorrect to contend that these "give-aways" have reduced our own ability to consume—though possibly it was true in some of the early postwar years. For a decade they have helped to sustain incomes and consumption here as well as to provide benefits to the recipients abroad. Many of those who oppose the programs do so for political reasons, but often they attempt to give their objections a fiscal flavor.

Currently, the war on poverty remains a subject of controversy. What some seem to overlook is that helping the poor also benefits the rich, since incomes are lifted throughout the economy. Opponents call it "waste"; some complain about "the loss of personal initiative," but they cannot show that opportunity for the exercise of initiative existed before retraining and other aids were provided; others speak of "the deterioration of moral fiber" and fear the development of new class distinctions, but this is a long-term concept not unlike others that led to similar fears all through the course of history.

The point here is not to discount entirely the objections to all these programs, but rather to make clear that they are based on social, political, and moral considerations. Expenditures that in themselves accomplish nothing may nevertheless accomplish something through their effects in expanding incomes and activity. The economy does not abhor waste and destruction; within limits, it thrives on them; and we are not yet close to the limits.

Design for Better Living

A related misconception is the idea that waste is confined to the public sector. The structure of the economy incorporates many forms of waste. Many of them may be judged deleterious but the sudden elimination of all of them would be ruinous in its deflationary impact.

The field of competitive selling is full of waste and inefficiency. A large proportion of advertising accomplishes nothing useful, though perhaps offsetting the other fellow's efforts, and much is designed to lead consumers into futile extravagance. Packaging is carried to extremes of elaboration and imposes the necessity of disposing of waste materials. But all this creates jobs which industry does not provide in its automated factories.

The private ownership and use of automobiles has transformed and distorted the whole economy. The wastes in making this form of transportation dominant are innumerable and practically immeasurable. But a booming auto industry, supported by its satellites in financing, repairing, parking, and insuring the cars produced, is a prime factor in the current upswing.

An affluent society can afford a great deal of unnecessary production and consumption. Trouble arises, however, when in spite of all its wastes and extravagances, it fails to offer opportunity to a substantial portion of its people. Then it cannot command the respect or obedience of its numerous underdogs.

Responsible government cannot permit such a situation to become acute but must constantly seek measures to improve the general welfare and reduce social tension. If the measures it adopts serve no purpose but to sustain prosperity, they still afford the maximum opportunity for everyone to improve his lot. Measures conceived to go beyond that, to make a positive contribution and not just to protect the private economy against its own weaknesses, can be part of a design for better living.

VLB

ELGIN—SUBURBAN CITY

Elgin is in a rare and enviable position for a small city. It is close enough to Chicago (36 miles) to give its residents the advantages of other suburban Chicago dwellers—the symphony, museums, major league ball teams—and at the same time is a city itself, offering occupational, educational, cultural, and recreational opportunities and providing the heart for a suburban complex of its own.

Over one hundred years ago settlers were attracted to the beautiful rolling country of the Fox River Valley. The location was naturally suited to dairy industry activity with Chicago close by on the southeast and the Wisconsin and northern Illinois dairy farms to the northwest. From 1854, when the city was incorporated, to the turn of the century, Elgin was prominent in the dairy industry and related activities. Production of farm products, silos, cream separators, butter tubs, and similar items dominated the economy of the city.

Since 1900 there has been considerable diversification of the city's economic activity. Elgin is no longer dependent on the dairy industry. The city now has a very diversified manufacturing industry. Approximately 37 percent of the people working in nonagricultural industry are employed by the city's durable and nondurable goods manufacturers. (The comparable figure for the whole State is 32 percent.) Durable goods manufacturers account for about two-thirds of this employment. Types of products made include furniture and other wood items, primary metal and fabricated metal products, machinery, and parts for transportation equipment. Foods, textiles, printing, and chemicals are also important.

Labor Situation

The people to man these industries are found among the city's population of 51,700 and the several hundred thousand people living in nearby surrounding areas. Diversified industry has created a labor force trained in many different skills. This in turn makes the area attractive to new industry, which develops further its trained labor force.

Nevertheless, the city is not without labor problems. The Illinois State Employment Service reported June unemployment at 2,100. This was 13 percent lower than the April figure of 2,425 but was 10 percent higher than the June, 1963, level of 1,925. Much of the unemployment has been caused by declines in two industries. Electrical machinery manufacturing has been in the downward phase of a cyclical movement, and a more permanent decline in employment in the professional-scientific instruments field has been experienced. A major concern in the latter business is in the process of a gradual shutdown. An increase in activity in the fabricated metals industry in the past year has helped, but has not been strong enough to overcome the downward trend in employment.

Of those people who are actively seeking work through the Elgin office of the Illinois State Employment Service, women constitute about 60 percent. An age breakdown of registrants shows that 11 percent are under 20; 25 percent, 20-34; 19 percent, 35-44; 17 percent, 45-54; 18 per-

cent, 55-65; and 10 percent over 65. Most of the unemployed are thus of an age that can usefully be employed if the opportunity presents itself.

A majority of all the unemployed are rated at employable skill levels. Some 13 percent are skilled; 31 percent semiskilled; 15 percent clerical-sales; and 8 percent service. One-third are in unskilled, entry, or other classes. Whether or not the current unemployment figure can be reduced and whether or not Elgin can grow economically depends on the city's ability to attract new industry into the area.

Confidence in the Future

There is every indication that the next few years will be good ones for Elgin. The city is favored by various means of transportation. The Illinois Northwest Tollway, which runs along the north part of the city, brings the Chicago Loop to within 40 minutes of Elgin. O'Hare International Airport is only 25 minutes away on the Tollway. Other good roads run through the city, east and west as well as north and south.

Trucking service is provided by 90 carriers of general freight. Of these, about two-thirds connect Elgin with major cities from coast to coast. The others connect the city with nearby industrial and commercial centers. Railroad service is provided by the Milwaukee Road, the Illinois Central Railroad, the Chicago and Northwestern Railway, and the Elgin, Joliet, and Eastern Railway. The latter is directly connected to every railroad entering Chicago and therefore provides for easy rail shipping to all parts of the country. These transportation facilities afford excellent service to local industries.

Also in Elgin's favor is the sprawling growth of Chicago's industry. More and more firms are establishing plants in the area surrounding Chicago rather than in the city itself. In order to promote the advantages of Elgin as a site for these plants an Industrial Development Commission has been formed. In the three-year period before the commission began its operations only three firms located in the Elgin area. After the commission started work, the first six months of 1963 saw seven new firms locate in the city.

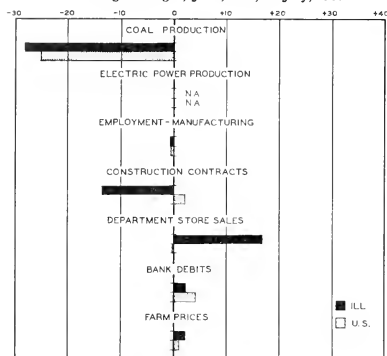
Another influence improving Elgin's future prospects is the proposed Civic Center which is to cover 25 acres of downtown Elgin. Planned for the center are a new city hall, new post office, new library, new appellate court building, and a new community building. In conjunction with the new buildings, parking facilities will be constructed to serve the downtown area. Landscaping along the Fox River is also planned to be added to the city's existing 306 acres of parks. Park facilities now include swimming pools, picnic areas, tennis courts, golf courses, and general playgrounds. In addition, a zoo, the Audubon Museum of Natural Science, and the Botanical Gardens are found in the city's parks. The park system, the Civic Center, and new employment opportunities all should enhance Elgin's attractiveness as a place to live and work.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS¹

Percentage changes, June, 1964, to July, 1964



* Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	July 1964 (1957-59 = 100)	Percentage change from June 1964	July 1963
Employment—manufacturing ¹	100.5	-0.5	+2.7
Weekly earnings—manufacturing ¹	122.2 ^a	-0.8	+3.0
Consumer prices in Chicago ²	106.6	+0.4	+0.3
Life insurance sales (ordinary) ³	144.1	+1.2	+13.0
Dept. store sales in Chicago ⁴	135.0 ^b	+7.1	+18.4
Farm prices ⁵	93.0	+2.2	-7.0
Bank debits ⁶	170.0	+2.2	+10.1
Construction contracts ⁷	120.7	-13.4	-6.6
Electric power ⁸	139.2	+5.3	+7.2
Coal production ⁹	84.9	-28.3	+18.7
Petroleum production ¹⁰	91.9	+25.7	-8.6

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Acry. Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.

* Preliminary. ^a Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	July 1964	Percentage change from June 1964	July 1963
Personal income ¹	490.8 ^a	+0.3	+5.8
Manufacturing ¹			
Sales	454.8 ^a	+3.0	+15.9
Inventories	60.4 ^{a, b}	0.0	+3.1
New construction activity ¹			
Private residential	30.3	-1.0	+2.3
Private nonresidential	20.4	+3.5	+8.4
Total public	22.0	-6.5	+4.9
Foreign trade ¹			
Merchandise exports	24.8 ^a	-7.1	+12.3
Merchandise imports	19.1 ^a	+9.4	+17.6
Excess of exports	5.7 ^a	-38.5	-2.5
Consumer credit outstanding ²			
Total credit	72.5 ^b	+0.8	+10.6
Installment credit	56.5 ^b	+1.0	+11.0
Business loans ²	44.2 ^b	-2.5	+8.4
Cash farm income ³	30.1 ^a	+8.5	+0.2
Industrial production ²			
Combined index	133 ^a	+0.8	+5.6
Durable manufactures	135 ^a	+1.1	+6.5
Non-durable manufactures	133 ^a	+0.8	+5.3
Minerals	112 ^a	+0.4	+1.9
Manufacturing employment ⁴			
Production workers	103 ^a	+0.3	+1.9
Factory worker earnings ⁴			
Average hours worked	102	-0.5	+0.5
Average hourly earnings	118	0.0	+3.3
Average weekly earnings	121	-0.5	+3.8
Construction contracts ⁵	160	+2.2	+11.5
Department store sales ⁶	n.a.		
Consumer price index ⁷	108	+0.3	+1.1
Wholesale prices ⁸			
Wholesale prices	100	+0.4	-0.2
Farm products	94	+1.0	-2.8
Foods	101	+1.0	-1.0
Other	101	+0.2	+0.3
Farm prices ⁹			
Received by farmers	97	+1.0	-4.0
Paid by farmers	107	0.0	0.0
Parity ratio	75 ^d	+1.3	-3.8

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted; ⁷ End of month; ⁸ Data for June, 1964, compared with May, 1964, and June, 1963; ⁹ Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1964					1963
		Aug. 29	Aug. 22	Aug. 15	Aug. 8	Aug. 1	Aug. 31
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,662	1,607	1,655	1,585	1,600	1,622
Electric power by utilities	mil. of kw-hr.	19,563	19,103	19,109	20,105	20,036	18,181
Motor vehicles (Wards)	number in thous.	123	70	42	23	80	63
Petroleum (daily avg.)	thous. bbl.	7,652	7,668	7,656	7,631	7,657	7,635
Steel	1957-59 = 100	129.6	128.4	127.7	123.5	121.9	94.7
Freight carloadings	thous. of cars	605	594	582	574	572	583
Retail sales	mil. of dol.	4,934	4,898	4,900	4,940	5,074	4,763
Commodity prices, wholesale:							
All commodities	1957-59 = 100	101.0	100.5	100.4	100.1	100.2	100.4 ^a
Other than farm products and foods	1957-59 = 100	101.2	101.1	101.1	101.1	101.0	100.8 ^a
22 commodities	1957-59 = 100	98.9	97.7	97.9	96.6	96.2	91.9
Finance:							
Business loans	mil. of dol.	38,902	38,915	38,874	38,700	38,498	35,204
Failures, industrial and commercial	number	263	303	273	276	230	247

Source: Survey of Current Business, Weekly Supplements.

^a Monthly index for August, 1963.

RECENT ECONOMIC CHANGES

Foreign Investment Booming

Private investment abroad by United States firms and individuals, like domestic investment, has been taking place at a high rate. During 1963, the total of overseas investments increased by a record \$6.3 billion to nearly \$66.4 billion. Included in this growth were advances in capital outflows (a peak \$4.3 billion), reinvested earnings (\$1.5 billion), and an increase in the market value of securities (\$500 million). The major classes of investment all showed greater gains than they had in 1962. Figures for the first half of 1964 are not yet complete, but preliminary data indicate a capital outflow at an annual rate of \$5 billion. This figure reflects a sharp advance in short-term lending, no significant change in direct investment, and a considerable cutback in portfolio investment as a result of the proposed tax to equalize interest (see chart). Much of the short-term lending represents commercial credit by banks.

American companies added more than \$3.4 billion to their direct investments abroad in 1963 to bring the total to \$40.6 billion; this amount was surpassed only in 1957. Net capital outflows accounted for almost \$1.9 billion and reinvested earnings for nearly \$1.6 billion. Canada and Europe received large amounts, particularly in the manufacturing and petroleum industries. Direct American investments in Australia and Japan also showed larger advances than in 1962—mainly in manufacturing and petroleum refining, respectively. Within manufacturing, the sharpest increases in United States foreign investment have occurred in automobile manufacturing and chemicals,

and large gains have also taken place in nonelectrical machinery and primary and fabricated metals.

Gross National Product Advances

The gross national product continued to rise and to set new records in the second quarter. At a seasonally adjusted annual rate of \$618.6 billion, GNP was up 1.6 percent from the previous three-month period and 7.1 percent from the corresponding quarter of 1963. When allowance is made for price changes, the increases are somewhat more than 1 percent and 5 percent respectively. Gains over the first quarter occurred in nearly all the major components. Two notable exceptions were new construction, where there was some slackening in the building of multifamily housing, and net exports of goods and services, where exports fell and imports rose.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(Seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1964	1st Qtr. 1964	2nd Qtr. 1963
Gross national product	618.6	608.8	577.4
Personal consumption	396.1	390.0	372.0
Durable goods	57.0	55.9	51.5
Nondurable goods	175.3	172.9	166.6
Services	163.8	161.1	153.9
Domestic investment	87.2	85.9	80.2
New construction	48.9	49.2	45.9
Producers' durable equipment	34.6	34.2	30.7
Change in business inventories	3.7	2.5	3.6
Nonfarm inventories only	3.4	2.2	3.2
Net exports of goods and services	5.7	7.7	4.3
Government purchases	129.6	125.2	120.9

INCOME AND SAVING

National income	506.6 ^a	498.4	474.6
Personal income	487.9	480.9	460.2
Disposable personal income	431.3	419.5	399.1
Personal saving	35.2	29.5	27.1

^a Preliminary.

Source: U.S. Department of Commerce.

Consumer demand continued high and accounted for more than half of the total rise in GNP. In the first two quarters, demand was particularly strong for household furniture and appliances, apparel, and food. In the government sector, state and local spending continued upward, and federal government expenditures moved higher for the first time in a year.

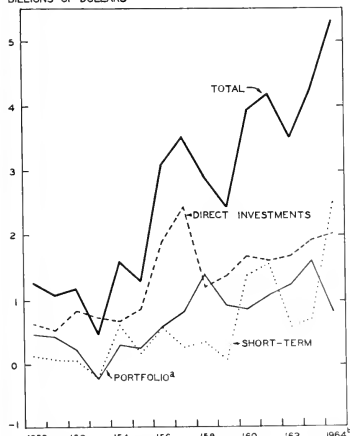
Housing Vacancy Rates Steady

The most recent Census Bureau report indicates that there were only small changes in the second quarter in the vacancy rates for housing. Of the total stock of for-sale units, 1.4 percent were vacant; and of the rental units, 7.4 percent were unoccupied. The homeowner rate varied from 1.1 percent in the North Central and Northeast regions to 1.8 percent in the South. The vacancy rate for rental units was lowest in the Northeast (4.4 percent) and ranged upward to 10.7 percent in the West.

The characteristics of vacant units are not very different from those in the second quarter of 1963. The chief changes have been an expansion in the number of vacant rental units built since the beginning of 1960, especially in metropolitan areas, and an increase in the number of vacant units renting for \$100 or more. Among vacant houses for sale, the rise in new units took place outside the standard metropolitan statistical areas and a rise in prices is evident.

PRIVATE CAPITAL OUTFLOW

BILLIONS OF DOLLARS



^a Net purchases of foreign securities and loans with a maturity of more than one year.

^b Estimated first half of 1964 at seasonally adjusted annual rate.

Source: U.S. Department of Commerce, *Survey of Current Business*, August, 1964, p. 8.

FINANCIAL DEVELOPMENTS OF THE CURRENT EXPANSION

CARL T. ARLT, Professor of Banking and Finance

Among the many unique features of the current economic upswing are the financial developments that have taken place since February, 1961. Market interest rates have failed to rise in a manner which had characterized other periods of recovery and expansion. During 1961 the short-term Treasury bill rate was marked by unusual stability in the face of an easy money policy combined with strong demand for short-term assets. In 1962 the interest rate patterns were distinguished by a decline in long-term rates while short-term rates rose slightly. In 1963, a year of vigorous expansion, the bill rate rose substantially, but the rise in the long-term rate was moderate. During the first half of 1964 with the economy still expanding, both long- and short-term rates remained quite stable.

Time deposits have risen at a remarkably high and steady rate since mid-1960. This continuous rise in time deposits differs from patterns of previous expansions, which were marked by a slowing down in such deposit growth as the economy moved from the recession phase to recovery and expansion.

The current upswing has been accompanied by a vigorous and steady growth of commercial bank credit marked by bank pressures to acquire higher-yielding and longer-term assets in both loan and investment categories. This change in the composition of bank assets has been an important influence in moderating upward pressures on long-term interest rates as well as inducing a decline in bank liquidity.

The nation's money supply (demand deposits plus currency outside banks) has been increasing during the current upswing for a much longer period than in earlier expansion phases. From December, 1963, to July, 1964, the money supply increased at an annual rate of 4 percent, or more rapidly than in any of the preceding three years. The continuing increase well into the fourth year of an expanding economy differs strikingly from earlier cyclical experience. During the final 12 months of the 1954-57 expansion the money supply increased only 0.7 percent. In the 1958-60 expansion the money supply actually declined 2 percent during the final 12 months.

The focus of this article is on the forces underlying these developments. Because the various financial elements are so closely interrelated, it is not feasible to discuss each one separately. It seems more appropriate to review the combination of financial developments as they unfolded through the years since February, 1961. It will be noted that the emerging financial patterns are the net product of the credit demands of the economy, the asset preferences of institutional and other investors, and government policies together with the actions to implement such policies.

Monetary Policy in 1961

In early 1961 the Federal Reserve and the Treasury were seriously concerned with two aspects of the economic picture. On the one hand, the economy called for a stimulative monetary policy to encourage recovery and expansion. Such a policy generally involves substantial Federal Reserve purchases of Treasury bills with downward pressures on short-term rates. On the other hand, the continuing deficits in the United States balance of payments and resulting pressures on the position of the dollar (see Chart 1) called for measures to reduce the

flow of dollars into foreign hands. Of particular concern to the United States was the fact that some short-term capital outflows were sensitive to interest rate differentials. Since foreign short-term rates were higher than comparable rates in the United States, the policy prescription was directed to the avoidance of downward pressures on United States short-term rates.

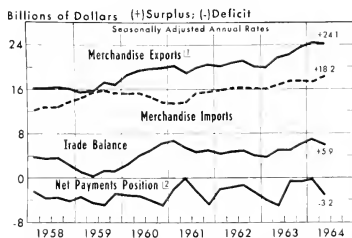
In the interest of stimulating the domestic economy the Federal Reserve maintained a policy of ease throughout 1961. Federal Reserve open market operations more than offset the drains on reserves associated with gold losses and other factors. Total member bank reserves grew sharply, particularly at the end of the year. Total loans and investments at all commercial banks rose by about \$15 billion. About 40 percent of the increase was in loans, 40 percent in United States government securities — concentrated in the short-term area — and 20 percent in other securities, mainly state and municipal issues. Bank liquidity as measured by the ratio of liquid assets to deposits increased over the year. Member bank borrowings remained low, and free reserves (excess reserves minus borrowings) remained at about \$500 million during most months of the year.

The money supply (demand deposits plus currency outside banks) also increased over the year by 3.5 percent. Thus, according to all measures of monetary policy, Federal Reserve operations were stimulative throughout 1961. The maintenance of an easy money policy well beyond the upturn in business contrasted with the previous upswing, when the Federal Reserve moved toward reduced ease within four months after the business trough.

To minimize the downward impact of its purchases on short-term rates, the Federal Reserve System in February, 1961, extended its open market buying to include longer-term securities. A first step in this direction had been taken in October, 1960, when System Account operations were extended to include short-term certificates, notes, and bonds, in addition to Treasury bills.

Treasury debt management policy supplemented Fed-

CHART 1. U.S. BALANCE OF TRADE AND NET PAYMENTS POSITION



1) Excluding military transfers under grants

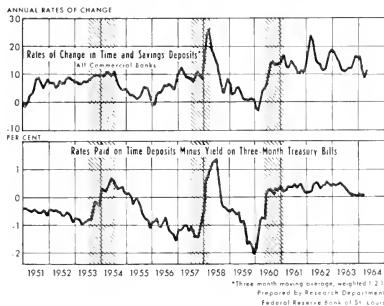
2) Deficit measured by net decline in U.S. gold and net increases in foreign held liquid dollar assets, (excluding the sales of nonmarketable convertible medium term Government securities to foreign monetary authorities). Since 1961, gold sales are net of change in convertible currencies held by U.S. monetary authorities.

Source: U.S. Department of Commerce

Latest data plotted: 2nd Quarter preliminary

Prepared by Research Department
Federal Reserve Bank of St. Louis

**CHART 2. MOVEMENTS IN TIME DEPOSITS
AND THE RATE DIFFERENTIAL**



eral Reserve efforts to maintain short-term rates. Government trust funds and investment accounts used additional funds accumulated during the year to purchase long-term securities. As an additional support to the short-term rate, these accounts also sold short-term securities to acquire longer maturities. Treasury cash financing in 1961 and during much of the current economic upsurge has been concentrated largely in the Treasury bill market.

Treasury short-term financing was particularly significant in the early months of 1961. By adding to the stock of short-term Treasury bills, the Treasury was able to meet the strong demands for liquid assets normally present during the recession and early recovery. In the absence of the added supply of bills, short-term bill rates would have tumbled below their late 1960 lows. At the trough of the two earlier recessions, the supply of short-term debt had been substantially reduced by Treasury debt-lengthening operations.

Throughout the 1961 recovery time deposits maintained a high rate of growth. In earlier postwar cycles, growth in time and savings accounts declined as the economy moved from recession to recovery. During recessions, declining short-term market rates usually produce a rate differential in favor of time deposits, whose rates tend to be insensitive to changing economic conditions. As the economy moves out of the recession, yields on Treasury bills and other short-term credit instruments normally rise above the rates which banks are permitted to pay on time deposits under Regulation Q, and this actually brought the growth in time deposits to a halt for short periods in early 1956 and early 1960. (See Chart 2.)

Commercial banks were able to attract time deposits in 1961 because short-term interest rates did not rise appreciably until late in the year. As shown by Chart 2, the interest differential remained in favor of time deposits. The development of a secondary market for negotiable certificates of deposit contributed to the attractiveness of time deposits as an investment medium for those managing liquid funds. As a result, time deposits at commercial banks continued to expand rapidly after February, 1961, at a rate only slightly below the recession rate.

Developments in 1962

A most important feature of 1962 developments was the tremendous increase in time and savings deposits

amounting to \$15 billion or an increase of 18 percent, the largest increase for any postwar year. The volume of time deposits responded quickly to the higher interest rates offered by commercial banks early in the year. The stage had been set for this time deposit growth by the revision of Regulation Q which raised maximum permissible rates in January, 1962. The Board of Governors stated that the rise in rate ceilings was "to enable banks to compete more effectively for savings and other time deposits, including foreign time deposits, thus moderating pressures on the U. S. balance of payments . . ." (*18th Annual Report*).

The rapid advance of time deposits throughout the year was strengthened by the fact that short-term market rates advanced only slightly through the year. The growing popularity of negotiable certificates of deposit with their relatively high interest returns, their flexible maturities, and the availability of a secondary market made banks, particularly large banks, effective competitors for the liquid reserves of corporations and other large participants in the market.

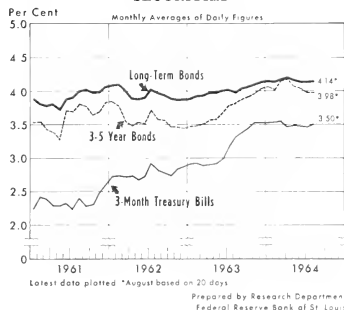
The higher rates on time and savings balances established in 1962 channeled a large volume of funds that would otherwise have been invested in short-term assets (Treasury bills and demand deposits) into the capital markets. This development helped not only to depress rates in the long-term market but also to raise rates in the short-term markets.

Commercial banks, in an effort to increase earnings in the face of rising amounts paid on a larger volume of time deposits and at higher rates of interest, pushed into longer-term and higher-yielding investments. Bank holdings of state and local government securities grew by \$5.3 billion, virtually 90 percent of the year's increase in state and local bonded debt. Banks increased their holdings of longer-term United States government securities while decreasing their holdings of those maturing within a year. At the same time, banks displayed intense interest in real estate loans, increasing their holdings by \$4 billion.

This shift in the composition of bank portfolios not only reduced the liquidity position of individual banks, it also provided a supply of funds in the capital market that outstripped the demand at existing rates. The net result was a decline in long-term rates (see Chart 3.)

The increase of total bank credit amounted to a

**CHART 3. YIELDS ON U.S. GOVERNMENT
SECURITIES**



record-breaking \$19 billion. Although total bank reserves did not increase in 1962, the large shift to time deposits with lower reserve requirements released reserves for further credit extension. Additional reserves were released when in the fall of 1962 the Federal Reserve lowered the legal reserve requirement on time deposits from 5 to 4 percent. This action released \$780 million in reserves.

In 1962 Federal Reserve policy reflected continuing concern over the balance-of-payments situation. It continued to move into longer maturities in its open market purchases so as to lessen downward pressures on the Treasury bill rate. Against the background of a continuing large deficit in the United States balance of payments and the possibility that sudden changes in payment flows might disrupt exchange markets, the Federal Open Market Committee on February 13, 1962, authorized transactions in foreign currencies for System Account. The details of actions in this area are beyond the scope of this paper, but the decision to authorize such operations is significant in that it points up the official concern expressed over the international position of the dollar.

Balance-of-payments considerations again influenced policy late in the fall. The Federal Reserve, instead of buying securities to increase bank reserves to meet seasonal credit requirements, reduced the legal reserve requirements on time deposits from 5 to 4 percent. This action released reserves for further credit extension. In the words of the Board of Governors, this move was "To help meet seasonal needs for reserves, while minimizing downward pressures on short term interest rates..." (*49th Annual Report*).

Reflecting this concern over the balance of payments, Federal Reserve policy was not as directly expansive as in 1961. Total bank reserves did not increase and the money supply increased only moderately, at the rate of 1.5 percent.

Recent Financial Trends

In some respects, 1963 was an extension of 1962. Commercial banks continued to compete for time deposits, achieving a growth rate of 15 percent, greater than in any other postwar year except 1962. In their search for earnings, commercial banks continued their heavy purchases of longer-term, higher-yielding assets, thus further reducing bank liquidity.

Monetary policy, in response to the general concern over the need for further stimulation of the economy and freed from the fear of rising prices and pressures on scarce resources, continued its easy posture. When measured in terms of the increase in total reserves and the money supply, monetary policy turned out to be somewhat easier than in 1962.

In mid-1963, however, the Federal Reserve policy was influenced by the growing evidence of a sharp second-quarter worsening in the United States balance of payments and by Treasury urging that a rise in short-term interest rates was needed to arrest the outflow of short-term capital. In July the Federal Reserve discount rate was raised to 3½ percent. The higher cost of reserves borrowed at Reserve Banks was reflected in other money market rates such as those on federal funds and rates charged to security dealers for financing security inventories. The Treasury bill rate rose and exceeded the discount rate by a small margin at year-end.

It is interesting to note that short-term rates actually recorded some advance before the mid-July action of the

Federal Reserve. This showed the sensitivity of the money market to government statements and actions.

Other factors contributed to the rise in short-term rates. The Federal Reserve in mid-July also increased the ceiling rates to 4 percent on time deposits maturing in 90 days to one year. This made it possible for commercial banks to offer more competitive rates on time certificates—particularly those with maturities of three to six months, on which the ceiling rate had previously been only 2½ percent. The resulting competition for short-term funds operated to support the general advance in short-term rates. Increased business activity combined with the government actions reinforced the feeling that interest rates were on the rise.

Long-term rates rose only moderately. The continued flow of funds into the capital market acted to moderate the growing demand for funds which developed in the continuing upsurge of business.

The unique feature of the first half of 1964 was the stability of interest rates after the rise in the last half of 1963. With output, employment, incomes, spending, and investment showing strength, one might expect growing credit demands to put upward pressure on rates. That rates have not moved upward may reflect the continuing easy money policy, the still-heavy (though slightly reduced) flow of institutional funds into the capital market, and the large volume of internal sources of funds available to business in the form of undistributed profits and depreciation allowances. The 1964 tax cut, which increases the funds available to individuals and corporations, may be one of the reasons why demand pressures have not increased credit to the point where rates would rise.

Some Policy Questions

The financial experience of the past 3½ years raises some important questions. To what extent is it possible for the Federal Reserve and the Treasury to alter the structure of interest rates? We note that short-term rates did rise while long-term rates declined and then rose moderately. To this extent interest rates moved in the direction desired by the government. But a review of financial patterns during recent years also shows that other factors had a lot to do with the course of interest rates in the current upswing. Among these were the nature of the credit demands, including an unusually moderate business demand for outside financing; the desire of a growing number to hold their liquidity reserves in the form of depository-type savings rather than in checking accounts and equity securities; and the large volume of institutional savings flowing into the capital markets. This is not to deny the impact of Treasury and Federal Reserve actions on interest rates; it merely suggests that government influence is less than complete.

Another question concerns bank liquidity. We have observed the tremendous growth of time deposits and the resulting shift in bank asset composition toward longer-term, higher-yielding loans and investments. The ratio of loans to deposits is now at a high level and the ratio of riskless assets to deposits has been declining. What is the position of banks in the event of a sharp increase in the demand for business loans? Are banks liquid enough to meet the demands of their preferred customers? What happens to individual banks that would be pinched if market rates of interest should rise to the point where certificates of deposit lose their attractiveness? Are banks in a position to meet a switch from time deposits to other market assets, or to demand deposits?

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Aerospace

The Aerospace Industries Association indicated in their 1963 report that approximately 85 percent of the industry's estimated total revenues of \$20 billion stemmed from government contracts. Roughly 74 percent of federal funds for defense and space projects were channeled through 100 companies in fiscal 1963. An estimated 10,000 first-tier subcontractors and 200,000 vendors took part directly in this government business. About half of prime contract dollars were parceled out to suppliers.

Lockheed Aircraft Corporation was the top military prime contractor in fiscal 1963, receiving new contracts amounting to slightly more than \$1.5 billion. Other companies that obtained contracts totaling over \$1 billion were Boeing, North American Aviation, General Dynamics, and General Electric. Martin Marietta Corporation, American Telephone and Telegraph, and United Aircraft were in the \$500 million to \$1 billion group, as reported by Standard and Poor's *Industry Survey*.

In recent defense budgets aircraft remains the largest procurement item. The manufacture of aircraft, aircraft engines, and components accounts for 50 percent of the aerospace industry's current dollar revenues. This percentage includes commercial jet transports, helicopters, and general aviation planes.

Missile systems spending first became a billion-dollar item in 1952. The upsurge began in 1956 when major technological advances were made. In fiscal 1964 annual outlays reached \$6 billion (not including expenditures for site construction and maintenance costs). With various projects completed and the rate of Minuteman installations

reduced, missile spending in 1965 will total approximately \$4.5 billion.

The current administration is shifting emphasis away from space exploration (see chart). Total expenditure in 1960 was \$960 million. It grew each year from 1960 to 1963 by 53 percent, 63 percent, and 71 percent respectively. From 1963 to 1964 spending rose 51 percent, increasing by approximately \$2 billion to \$6.2 billion. The estimate for 1965 is \$6.7 billion, a growth of roughly 9 percent.

Research and development account for at least 75 percent of federal appropriations in the aerospace industry. Government officials estimate that half of all highly technically trained personnel in the United States are indirectly involved in advanced programs of defense and that 80 percent of all electronic specialists are engaged in national security programs to some extent.

Mutual Funds

Most mutual funds this year have invested heavily in blue chip stocks and have performed approximately the same as the leading averages, perhaps slightly better.

From January 2 to July 1 the Dow-Jones industrial average went up 8.5 percent and Standard and Poor's list of 500 stocks increased 8.3 percent. The net asset value per share of a sample made by *Business Week* of common stock funds indicated that most of them rose roughly 9 percent in value, with a range of 6 to 12 percent. Growth stock funds also gained about 9 percent in value, but with a wider range of 6 to 16 percent. Balanced funds did not keep up with the averages, showing a median increase of 6 percent.

Small Business Consultants

The Service Corps of Retired Executives (SCORE) started by the Small Business Administration (SBA) officially began operations in Boston in August. By late fall the program will be functioning in all 14 SBA regional offices. The aim of SCORE is to give assistance to small companies that are not showing much progress or are having difficulty meeting loan payments. These small businesses will be advised only if they request it.

Four-man teams of retired executives will be used. Boston will have eight teams. As presently planned they will not be paid. It is felt that these volunteers will not be in competition with professional consultants, since they will deal mostly with businesses too small to pay for consulting services. Most volunteers are over 60 and retired, but a few are still actively employed.

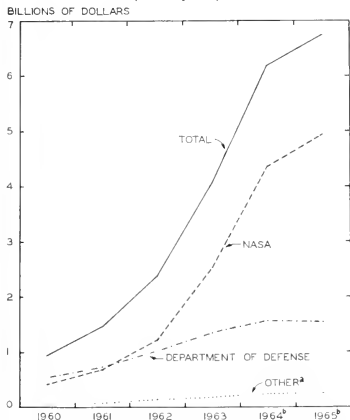
Voters

On November 1 there will be about 114 million people of voting age in the United States. In addition there are 500,000 people of voting age in the armed forces overseas.

Eligible voters actually number about 111 million, since 3 million in the above total are ineligible to vote because of such conditions as alien status or failure to meet state requirements of residence. Of the 114 million total, it is estimated that 55 million are men and 59 million women; 102 million are white and 12 million nonwhite.

In the 1960 presidential election 63 percent of the population of voting age exercised their right to vote. A similar percentage this year would produce a vote of approximately 72 million.

SPACE EXPENDITURES
(Fiscal years)



^a Atomic Energy Commission, National Science Foundation, and Weather Bureau.

^b Estimate.

Source: U.S. Bureau of the Budget.

LOCAL ILLINOIS DEVELOPMENTS

Life Insurance in Force

Illinois families owned \$48 billion of life insurance at the end of 1963, up \$3.3 billion from a year earlier. During each of the last two years, the increase has amounted to somewhat more than 7 percent. On a nationwide basis life insurance in force totaled nearly \$731 billion, a gain of 8 percent over 1962. Average ownership per insured family has now reached \$15,300. Illinois continues to rank fourth among the states in total life insurance ownership.

Ordinary life insurance remains the major method of protection, accounting for \$28 billion or 58 percent of the total ownership in the State at the end of 1963 (see chart). This is similar to the United States as a whole where 57 percent of total ownership, or \$419 billion, is in the form of ordinary life.

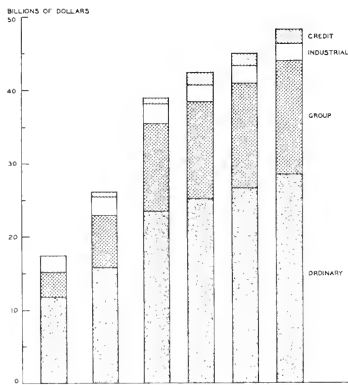
The second largest form of insurance owned in the State is group insurance. The amount in force is \$15.5 billion, 31 percent of the total. This is a gain of 8.4 percent over 1962. The largest percentage increase has been in credit insurance, which is usually associated with consumer debt. Over the past few years this item has risen steadily, with the 1963 figure 17.3 percent above that for 1962. The absolute amount remains small, however, at about \$2 billion, or only 4 percent of the total. Holdings of industrial insurance showed a very slight decline.

Nonagricultural Employment

Nonagricultural employment in Illinois rose 1.7 percent between May, 1963, and May, 1964, when nonfarm jobholders totaled 3,648,000. The greatest increase occurred in the number of government workers. In May, 1964, there were 471,000 employees in this category. This was an advance of 2.8 percent or 13,000 over May, 1963.

In the largest category, manufacturing, total employment went up by 2.4 percent to 1,222,000. A similar gain occurred in mining, quarrying, and petroleum production, where there was an increase of 2.6 percent to 27,000.

LIFE INSURANCE IN FORCE



Source: Institute of Life Insurance

In the service and miscellaneous group a rise of 2.2 percent over the previous year brought the total to \$39,000. For the two categories of wholesale and retail trade and finance, insurance, and real estate, employment went up about 1 percent to 765,000 and 197,000 respectively. There was virtually no change in the number employed by the transportation and public utilities industries.

Construction was the only area in which a decline occurred. Here the total decreased by 3,000 to 153,000.

Cool Mining

The number of employees in Illinois coal mines rose slightly in 1963 for the first time since 1946, when there were 32,476 coal miners working in the State. Employment decreased fairly steadily from 1946 to a low of 8,774 in 1962. In 1963 employment totaled 8,891, a gain of 1.3 percent. Of the total, 62 percent were working in underground mines and 38 percent were employed in strip mines.

There has been a steady increase since 1959 in average days worked. In that year the average number of days worked was 162; in 1963 the figure was 187.

The number of mines operated in the State has remained the same for two years, after declining from 159 in 1959 to 116 in 1962. In 1963, 34 counties in Illinois were listed as coal producers by the State Department of Mines and Minerals.

Output of coal went up to 51.6 million tons in 1963, an increase of 6.8 percent over 1962. From 1959 through 1961 output averaged slightly more than 45 million tons.

Production Workers' Earnings

Illinois production workers on manufacturing payrolls earned gross wages averaging \$113.39 per week in May. This represents a 4.6 percent gain in average weekly wages over May, 1963; the average workweek amounted to 41 hours, an increase of only 0.7 percent.

Peoria area production workers were employed an average of 43.7 hours a week, up 7.9 percent, and received wages averaging \$136.25, a gain of 14.7 percent. This was the largest increase in the State.

Davenport-Rock Island-Moline area production employees worked 4.2 percent more hours and earned average wages of \$120.94, up 9.7 percent. In the Rockford area, weekly pay increased by 7.5 percent to \$116.31 while hours worked rose only 2.4 percent to 43.5.

Workers in the Chicago area had gross earnings of \$114.49, up 3.8 percent, for working 40.9 hours, about the same number as a year ago. Since this is the biggest region, its lower rate of increase chiefly accounts for the low state average increase of 4.6 percent.

Farm Land Use

About 65 percent of the total farm land in Illinois was devoted to crop raising in 1963. Corn was planted on 8.5 million acres or 28 percent of the land available. This was a decrease of 1.7 million acres since 1960. Still, Illinois was second only to Iowa in total acreage devoted to corn. Soybeans were raised on 16 percent of the farm land. The acreage for this crop has increased steadily over the years to a 1963 total of 5.5 million acres. Hay, wheat, and oats were grown on 17 percent of the farm land. The State also produced tomatoes, asparagus, and green peas for processing. Leading fresh market crops were cabbage, sweet corn, and strawberries.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1964

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
	June, 1964	\$44,526 ^a	1,644 2 ^a			\$28,257 ^a	\$17,589 ^a
Percentage change from	July, 1963	-13 2	+7 5		-9	+2 2	-1 6
	July, 1963	+8 6	+9 4		+17	+10 1	+6 6
NORTHERN ILLINOIS							
Chicago		\$23,111	1,154 5			\$26,290	\$14,789
Percentage change from	June, 1964	-41 4	+7 5		-10	+2 3	-1 9
	July, 1963	-4 3	+8 2		+18	+10 5	+6 9
Aurora		\$ 883	n.a.			\$ 100	\$ 212
Percentage change from	June, 1964	-36 2			n.a.	-1 0	+0 5
	July, 1963	+18 5				+1 0	+10 4
Elgin		\$ 483	n.a.			\$ 62	\$ 170
Percentage change from	June, 1964	-6 0			n.a.	-3 1	-15 8
	July, 1963	-17 9				-6 1	+23 2
Joliet		\$ 951	n.a.			\$ 107	\$ 144
Percentage change from	June, 1964	+36 2			-10	+4 9	+15 2
	July, 1963	+32 8			+8	+0 9	+4 3
Kankakee		\$ 390	n.a.			n.a.	\$ 80
Percentage change from	June, 1964	+83 1			n.a.		+27 0
	July, 1963	+74 9					+3 9
Rock Island-Moline		\$ 2,741	58 2 ^b			\$ 166 ^b	\$ 211
Percentage change from	June, 1964	+164 6	+5 2		n.a.	-2 4	+2 9
	July, 1963	+131 5	+24 1			+13 7	0 0
Rockford		\$ 2,382	71 5 ^c			\$ 263	\$ 291
Percentage change from	June, 1964	+14 1	+11 0		n.a.	-0 8	-3 3
	July, 1963	+39 5	+12 8			+9 6	+7 8
CENTRAL ILLINOIS							
Bloomington		\$ 925	15 1			\$ 118	\$ 131
Percentage change from	June, 1964	+5 1	+7 1		n.a.	+37 2	-20 6
	July, 1963	-51 5	+5 6			+0 9	-16 0
Champaign-Urbana		\$ 1,170	25 3			\$ 121	\$ 152
Percentage change from	June, 1964	+69 6	+8 1		n.a.	-7 6	-10 6
	July, 1963	-69 6	+13 5			+1 7	+2 0
Danville		\$ 310	22 7			\$ 67	\$ 94
Percentage change from	June, 1964	+55 0	+3 7		-4	+6 3	-2 1
	July, 1963	+38 4	+9 6		+1	+8 1	+5 6
Decatur		\$ 2,446	47 7			\$ 175	\$ 163
Percentage change from	June, 1964	+175 1	+2 1		-11 ^c	+6 7	-1 2
	July, 1963	+233 2	+12 0		+8 ^c	+18 2	+5 8
Galesburg		\$ 195	13 5			n.a.	\$ 62
Percentage change from	June, 1964	+12 7	+7 1		n.a.		+17 0
	July, 1963	-35 6	+16 4				+6 9
Peoria		\$ 321 2	85 0 ^c			\$ 332	\$ 345
Percentage change from	June, 1964	+172 2	+6 0		-14	-10 3	-7 5
	July, 1963	+330 6	+19 5		+6	+3 4	+9 5
Quincy		\$ 676	17 7			\$ 67	\$ 94
Percentage change from	June, 1964	+238 0	+7 3		n.a.	-9 5	+3 3
	July, 1963	+220 4	+0 6			+3 1	+11 9
Springfield		\$ 2,278	64 7			\$ 184	\$ 404
Percentage change from	June, 1964	+161 4	+12 9		-3 ^c	+8 9	+10 1
	July, 1963	-34 9	+5 7		+5 ^c	+7 0	+0 5
SOUTHERN ILLINOIS							
East St. Louis		n.a.	21 0			\$ 144	\$ 126
Percentage change from	June, 1964		+12 9		n.a.	+5 1	+31 3
	July, 1963		+5 0			+2 1	+1 6
Alton		\$ 1,526	29 4			\$ 61	\$ 47
Percentage change from	June, 1964	+1,654 0	+2 4		n.a.	+7 0	0 0
	July, 1963	+259 1	+4 3			+3 4	+6 8
Belleville		\$ 846	17 9			n.a.	\$ 74
Percentage change from	June, 1964	+69 2	+10 5		n.a.		+2 8
	July, 1963	+243 0	+11 2				+12 1

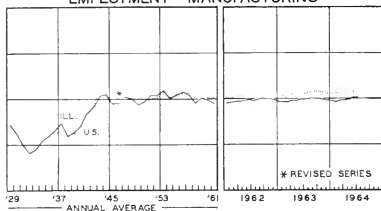
^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending July 17, 1964, and July 19, 1963.

INDEXES OF BUSINESS ACTIVITY

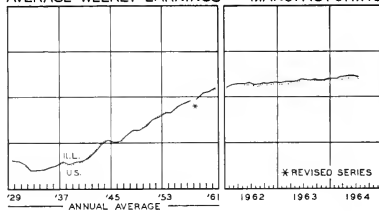
1957-1959 = 100

2078 Bussey

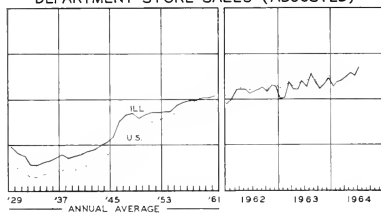
EMPLOYMENT - MANUFACTURING



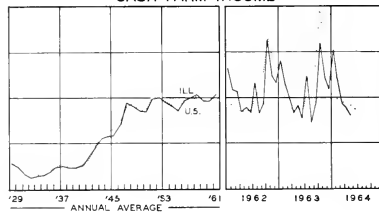
AVERAGE WEEKLY EARNINGS - MANUFACTURING



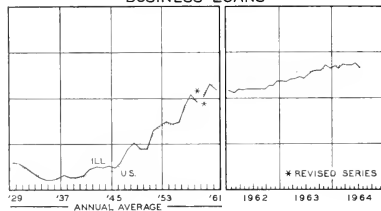
DEPARTMENT STORE SALES (ADJUSTED)



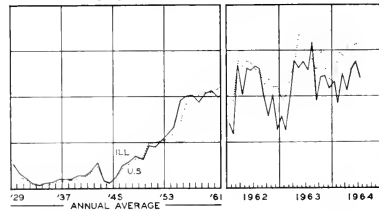
CASH FARM INCOME



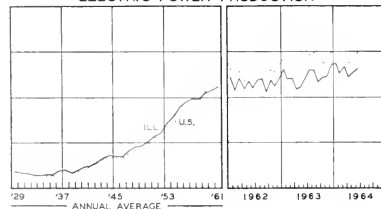
BUSINESS LOANS



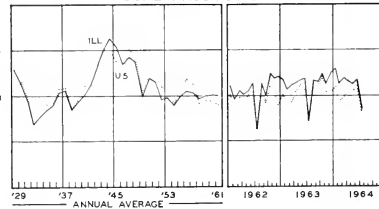
CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



COAL PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

OCTOBER, 1964

NUMBER 9

HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Business activity continued its upward course to new records in September. The strike at General Motors plants came as something of a surprise after the agreements with Chrysler and Ford and the apparent success of bargaining over the general terms of the contract. However, it now seems probable that conflicts over working conditions in individual plants, which had been underestimated both by the corporation and top union officials, will be settled in the near future.

Despite the shutdown at General Motors, steel production was at a high level in the latter part of September, and other suppliers of the automobile industry had not found it necessary to curtail output. Almost 573,000 passenger cars were produced during the month. This was nearly 16 percent more than in the year-earlier month, when the start-up of production after the model change-over came a little later.

Little Change in Construction

Total new construction put in place in September was valued at \$6.1 billion in preliminary estimates. This was 1 percent less than in August and 3 percent above the September, 1963, total. Expressed as an annual rate and adjusted for seasonal variation, the latest estimate was virtually unchanged from August, and in 1957-59 dollars it was only 2 percent above the year-earlier September.

The value of total new private construction expenditures was estimated at \$4.2 billion, also down 1 percent from August and up 3 percent from the year-earlier figure. Spending for construction of new private non-farm residential buildings amounted to \$2.4 billion, 3 percent less than in August and about the same as in September, 1963. On a seasonally adjusted basis, the decline from August was less than 1 percent.

Jobless Rate Unchanged

The seasonally adjusted rate of unemployment in September was estimated at 5.2 percent, essentially the same as in August. For the past five months it has been fluctuating around 5 percent, whereas for many months before it stayed close to 5.5 percent.

The number of unemployed dropped 337,000 from mid-August, almost exactly the amount expected for this time of year, to 3.3 million. Employment also declined about seasonally to 70.8 million from 72.1 million in mid-August. Thus the labor force was down 1.6 million to 76.8 million.

A large reduction in the teen-aged labor force as school began was only partly offset by an influx of women workers. The seasonally adjusted rate of unemployment for teen-agers dropped from 15 percent in mid-August to 14.2 percent and that of adult women was about the same as for the past four months at 5 percent. However, the jobless rate for adult men rose to 3.9 percent from 3.7 percent in July and August and the rate for married men was up from 2.6 percent to 2.9 percent.

Inventories Steady

Business firms as a whole made little change in their inventories during July or August. Stocks held by all businesses at the end of August were estimated at a seasonally adjusted \$106.6 billion, about the same as for June and July. With total business sales in August amounting to \$73.2 billion, the ratio of inventories to sales was at 1.46, up slightly from the 1.45 for July because of a drop of \$500 million in sales from the record purchases in July. Department of Commerce analysts said that the stability suggests that business firms do not expect sales to change much in the near future.

Stocks held by retailers at the end of August amounted to \$29.94 billion, down \$190 million from the month before. Automobile dealers accounted for \$40 million of the decline as they cleared out 1964 models in preparation for the 1965 cars. Furniture and appliance dealers reduced their stocks \$50 million. Wholesale inventories declined \$50 million to \$15.97 billion. However, manufacturers' stocks rose \$230 million in August to \$60.72 million. Most of this increase was in materials used by durable goods producers. Stocks of finished goods on hand at factories were down slightly.

Farm Prices Improve

During the month ended September 15, the index of prices received by farmers rose 4 points (2 percent) to 236 percent of its 1910-14 average. Higher prices for wholesale milk, cattle, and hogs contributed most to the increase. These were partly offset by a decline in potato prices. The index of prices paid by farmers was unchanged over the month at 313 (1910-14 = 100).

With prices paid by farmers unchanged and farm product prices advancing, the parity ratio rose 1 percent during the month to 75. Thus it was 1 point above the lowest ratio since 1939.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

Box N, Station A, Champaign, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Fallacies About the Federal Debt

A generation ago, Keynes showed that some government expenditures which accomplished practically nothing in themselves were useful as a stimulus to the economy. Galbraith now explains why emphasis ought to shift toward expenditure programs that will improve the quality of life (See *Science*, July, 1964). A sorry symptom of these confused times is that precisely this type of government expenditure is most bitterly opposed. Outspoken critics of government spending support wasteful expenditures but oppose those which are the most productive and beneficial.

These very general comments on government programs are offered as prelude to a discussion of the federal debt because it is expenditures in excess of receipts that force the government to expand its debt by borrowing. Citing the evils of debt is therefore a way of attacking expenditures, at least the kinds one does not like. This kind of argument, however, is basically diversionary. Neither the debt nor its alleged burdens are a basis for deciding expenditure programs on anything but their own merits or tax programs on anything but their specific effects.

Economic Role of Financial Assets

To see the meaning of debt in its broadest perspective, we must keep in mind that claims against existing or future real values are a basic goal of economic action. The possession of money represents such a claim. Everyone wants to be wealthy, but unless the supply of money is kept within reasonable limits, it will not be accepted as an indicator of wealth by anybody. It is the government's function to supply and regulate money in the interest of a vigorous economy.

The government also originates near-money claims in the form of short-term Treasury bills and notes. These are promises to pay at specified dates in money. The money alone has the status of legal tender but, like the other kinds of financial paper it supports, is of no value in itself. In earlier times it represented the government's promise to pay specified amounts of gold or silver on demand, but this metallic content has been eliminated for a generation. In practice the dominant form of money

today consists of checks drawn on bank deposits, that is, claims against banks. Nevertheless, money and money substitutes are important in making it possible for a highly specialized, industrial economy to function effectively.

Similarly, a substantial amount of federal debt in other forms helps to keep money and capital markets healthy. Regulating and controlling the supply of this debt may also be important to the economy, but only a few of the most direct and basic effects can be considered in the short space available here. One well-established principle is that the government should borrow when it wishes to spend in excess of its receipts in order that the value of money be most completely guaranteed.

The creation of all these claims, whose value inheres in their power to command goods and services, is part of the process by which we put the resources of the community to work. Mobilizing savings and undertaking real investment by means of credit results in a higher level of national income. Accumulation of the real wealth which our paper assets represent — the factories, houses, public works, and all our productive equipment — is an essential part of the history of our economic growth. For all of us considered together, the only way the debt would be a threat is if we tried to liquidate it.

Since the end of the war, the federal debt has been comparatively stable — in contrast to private debt, which has been growing sharply. Even if we go back a quarter of a century, to 1939, the growth in the federal debt, which occurred mostly during World War II, has been no greater relatively than the growth in private debt. Total debt, public and private together, has increased about sixfold but its growth now just about matches the increase in gross national product over the same period. The aggregate debt is tremendous but so is the economy that stands behind it.

The Analogy With Personal Finance

If the national economic accounts were consolidated for the economy as a whole, most of the financial assets and liabilities would cancel out, leaving some relatively small claims against and indebtedness to the rest of the world and revealing our aggregate real wealth as the productive capital supporting our high standard of living. To some extent the situation would be similar to that of the family in which a son has borrowed from his father. The debt is purely internal, and the family as a whole may still present a clean balance sheet to the outside world. The son might use the funds thus obtained as the down payment on the purchase of a house, and his eligibility for a mortgage loan on the property would be considered satisfactory. Similarly, the federal debt, which was incurred on behalf of all of us and is payable to a great many of us, is internal to this larger family and cannot threaten the economy with bankruptcy.

There are also important differences between private and government finance. The son would presumably have to repay his father in currency whose supply he cannot influence. This legal tender, however, is the product of the government and could be created in sufficient volume to pay its debt if it were considered desirable to change the legislation and policies by which the money supply is controlled — which almost everybody agrees, of course, is not the case.

Another important difference is overlooked by the opponents of government borrowing who assert that "the

(Continued on page 8)

AUTOMATIC MERCHANDISING

It was over 2,000 years ago that man first hit upon the idea of sales without salesmen. The first known vending machine was used in ancient Greece about 200 B.C. It was a coin-operated temple urn which issued holy water to Greek worshippers. The oldest surviving vending machine is a brass box dating from 18th century England, which dispensed tobacco and snuff.

During the late 19th and early 20th centuries many ingenious machines were developed. Taking a mechanical bull by the horns would result in a little puff of perfume being wafted over the machine's operator. The sign on another device proclaimed it to be "For One Night Jags, Headache, Rheumatism, Neuralgia, Debility, and All Nervous Disorders." The machine's doubtful curative power consisted of a mild jolt of electricity which the patient received by grasping a pair of handles after inserting a dime in the slot. One unusual vendor was a cast iron hen which clucked and laid a hard-boiled egg when a crank was turned. Other machines developed around the turn of the century offered cigars, cigarettes, beer, wine, coffee, sweetmeats, stamps, stationery, handkerchiefs, books, and divorce application forms (in Utah).

Two Chicago companies were early entrants into the field. In 1902 the White Vending Machine Company came out with a head-shaped gum vendor called Smilin' Sam from Alabama, and three years later the Mills Novelty Company offered the electronic treatment described above.

Problems in the Past

During the industry's infancy, food was seldom sold through machines. One device did sell sandwiches, but they were unrefrigerated and had to be replaced at the start of each day. Over the past 60 years, advances in refrigeration and more sophisticated mechanical and electronic devices have made possible the sale of many types of cold and frozen foods.

However, the industry has yet to develop a really satisfactory method of handling most types of hot foods. Coffee, cocoa, soups, and other easily heated items are now sold but more complete meals such as meat, potatoes, and vegetables, which take longer to heat, still present a problem. In some cases the time of consumption can be predicted—for instance in a factory or school cafeteria—and the food can be heated just prior to expected consumption. However, there is still a problem in that any meals not purchased must be discarded at the end of a short period. The problem is compounded if a machine is to be located in an area where the time of use cannot be predicted—such as along a tollway. The industry is currently experimenting with quick heating frozen food through radiation, a process which can produce a cooked meal in a matter of seconds. If successful, this process will mark a major breakthrough in the sale of hot foods through vending machines.

Another problem that had faced the industry since the beginning was recently solved. It is no longer necessary for customers to have enough money in coin for their

purchase. Machines are now available which can read and change paper money in denominations of \$1, \$2, \$5, \$10, and \$20.

One difficulty which recently beset the industry was partly self-inflicted. During the late 1950's and early 1960's both machine manufacturers and operating companies were enjoying record sales. It appeared that virtually anything could be sold by machine if it was mechanically feasible. Heavy investments were made in several new ideas. Many of them did not succeed. The public was apparently not as willing to purchase some items from machines as was thought. For example, an agreement between a major oil company and a large Chicago operator to provide automatic eating places in gas stations failed. An indication of the severity of the shock is the fact that the net profit of one Chicago-based manufacturer went from \$5 million in 1961 to \$633,000 in 1962.

Potential in the Future

It did not take long for the lesson to be learned, however. The industry is booming again, with annual sales of merchandise through vending machines currently amounting to about \$4 billion. This represents a tremendous growth in the industry over the past two decades. In 1946 sales through vending machines were \$600 million.

Machine manufacturers located in Illinois, and Chicago in particular, are getting a major share of the industry's business. There are 23 firms in the State engaged in the manufacture of vending machines, 16 of them in Chicago. Two Chicago firms employ over 1,000 people and are among the largest in the industry. In total, the state's 23 firms employ over 6,300 people and represent an investment of more than \$12 million.

Most vending machines are operated by small companies. About 80 percent of the business is done by firms with six or fewer employees. There are indications that this industry pattern is changing, however. In the past few years the industry has been marked by an extensive merger movement brought about by changing patterns in the demand for service. Establishments providing space to operators want a larger variety of goods sold through machines. At the same time they prefer to do all their business with a single firm and this has forced many small firms to expand or merge with others to reach a size large enough to handle a complete line of machines. By the same token the operators are demanding that a manufacturer be able to provide an extensive line, causing many mergers at the manufacturing level.

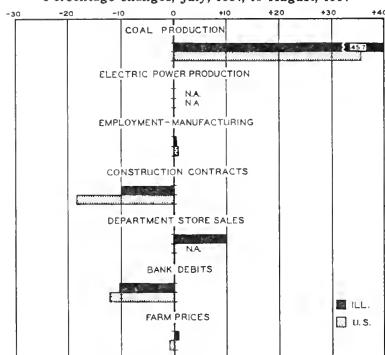
The setback suffered a few years ago has not darkened the outlook of most industry executives. One top executive sees the hot food market as holding great potential for the industry. The development of an efficient hot meal vending machine would permit extensive industry penetration into this market. Other factors such as recent successes in new ventures in coin-operated car washes and dry cleaning machines have indicated that the market's full potential is yet to be reached.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, July, 1964, to August, 1964



* Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Aug. 1964 (1957-59 = 100)	Percentage change from July 1964	Aug. 1963
Employment—manufacturing ¹	101.5	+ 1.0	+ 2.6
Weekly earnings—manufacturing ¹	123.1 ^a	+ 0.7	+ 4.3
Consumer prices in Chicago ²	106.3	- 0.3	+ 0.3
Life insurance sales (ordinary) ³	132.9	- 7.8	+ 6.0
Dept. store sales in Chicago ⁴	138.0 ^b	+ 2.2	+ 7.8
Farm prices ⁵	94.0	+ 1.1	- 5.1
Bank debits ⁶	152.3	- 10.4	+ 9.0
Construction contracts ⁷	108.7	- 9.9	- 32.0
Electric power ⁸	137.2	- 1.5	+ 5.2
Coal production ⁹	123.7	+ 45.7	+ 5.9
Petroleum production ¹⁰	90.1	- 2.0	- 8.6

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Agency, Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Aug. 1964	Percentage change from July 1964	Aug. 1963
Personal income ¹	493.9 ^a	+ 0.5	+ 6.0
Manufacturing ¹			
Sales	445.8 ^a	- 2.1	+ 6.9
Inventories	60.7 ^{a, b}	+ 0.3	+ 2.9
New construction activity ¹			
Private residential	30.2	- 1.3	+ 2.9
Private nonresidential	20.9	+ 2.4	+ 6.1
Total public	23.4	+ 1.9	+ 2.1
Foreign trade ¹			
Merchandise exports	25.1 ^a	+ 1.0	+ 16.2
Merchandise imports	19.3 ^a	+ 1.1	+ 7.3
Excess of exports	5.7 ^a	+ 0.8	+ 61.5
Consumer credit outstanding ²			
Total credit	73.1 ^b	+ 0.8	+ 10.2
Installment credit	57.1 ^b	+ 1.0	+ 10.7
Business loans ³	45.0 ^b	+ 1.8	+ 9.9
Cash farm income ³	32.7 ^a	+ 8.5	- 6.7
Industrial production ²			
Combined index	134 ^a	+ 0.6	+ 6.5
Durable manufactures	136 ^a	+ 0.7	+ 8.6
Nondurable manufactures	133 ^a	+ 0.4	+ 4.9
Minerals	113 ^a	+ 1.1	+ 1.4
Manufacturing employment ⁴			
Production workers	102 ^a	- 0.3	+ 2.2
Factory worker earnings ⁴			
Average hours worked	103	+ 0.7	+ 1.0
Average hourly earnings	118	- 0.4	+ 3.7
Average weekly earnings	121	+ 0.3	+ 4.7
Construction contracts ⁵	131	- 18.3	- 7.4
Department store sales ⁶	n.a.		
Consumer price index ⁷	108	- 0.1	+ 1.0
Wholesale prices ⁸			
All commodities	100	- 0.1	- 0.1
Farm products	94	- 0.5	- 2.8
Foods	101	- 0.2	+ 0.1
Other	101	0.0	+ 0.3
Farm prices ⁹			
Received by farmers	96	- 1.0	- 4.0
Paid by farmers	107	0.0	+ 0.9
Parity ratio	74 ^d	- 1.3	- 5.1

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for July, 1964, compared with June, 1964, and July, 1963. ⁹ Based on official indexes, 1910-14 = 100. N.A. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1964					1963
	Sept. 26	Sept. 19	Sept. 12	Sept. 5	Aug. 29	Sept. 28
Production:						
Bituminous coal (daily avg.)	1,707	1,692	1,736	1,664	1,662	1,673
Electric power by utilities	18,775	18,498	18,937	19,792	19,563	17,285
Motor vehicles (Wards)	179	180	143	153	123	183
Petroleum (daily avg.)	7,747	7,734	7,734	7,741	7,652	7,578
Steel	133.1	134.5	132.3	130.8	129.6	100.9
Freight carloadings	623	632	531	610	605	622
Retail sales	4,918	4,770	4,535	5,163	4,934	4,725
Commodity prices, wholesale:						
All commodities	100.7	100.7	100.6	100.6	100.9	100.3 ^a
Other than farm products and foods	101.1	101.1	101.1	101.1	101.2	100.7 ^a
22 commodities	100.3	99.7	99.2	99.3	98.9	93.8
Finance:						
Business loans	39,711	39,802	39,031	39,091	38,902	35,944
Failures, industrial and commercial	242	230	213	240	263	254

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for September, 1963.

RECENT ECONOMIC CHANGES

Industrial Production Up

Industrial production rose in August for the 12th consecutive month, reaching a record level of 133.5 percent of the 1957-59 average after seasonal adjustment. This was 1 percentage point above the previous month and 8 points higher than the year-ago level (see chart).

Nearly all major industries shared in the July-August advance. Manufacturing was up somewhat more than the average, mainly on the basis of a strong showing by durables. Among durables, the largest increase occurred in motor vehicles and parts. Mining production and utilities were also slightly above the July level.

Small month-to-month gains added up to an increase of 6.4 percent between August, 1963, and August, 1964. Manufacturing production rose more than the average, again with durables leading the way. Primary metals and fabricated metals both advanced over the year by nearly 15 percent, and the production of machinery was up slightly more than 7 percent. Among the nondurables, the chemicals-petroleum-rubber grouping showed the greatest growth, increasing by 6.8 percent.

Youth Unemployment

Unemployment rates are generally highest among workers who recently began their careers. The young workers are more likely to be laid off because of lack of experience or seniority. Also, they often become dissatisfied, quit, and attempt to find a better job.

The 16-21 age group who are not in school (dropouts and graduates) account for 1 out of every 14 persons in the labor force, but 1 of every 5 persons seeking a job.

In 1963 there were 1.7 million high school graduates, 55 percent of whom did not enroll in college. Of this 55 percent, 79 percent or 755,000 entered the labor force. In this group 136,000 or 18 percent did not obtain employment by October, 1963, according to a recent report by

the Bureau of Labor Statistics. Roughly one-third of those who dropped out of school in 1963 and entered the labor market remained without jobs. At that time, unemployment among dropouts was approximately 80 percent higher than the rate for new graduates.

By October, 1963, all but 10.6 percent of the 1962 graduating class that entered the labor market were working. Of those who dropped out in 1962, one-fourth were not employed.

Downturn in Housing Starts

From 1960 to 1963 housing starts were in a strong upward trend, owing mostly to a flood of apartment building. Last fall and winter housing starts turned down irregularly, but since March of this year the downturn has been almost continuous. Structures for three or more families started in the first half of this year were less than 10 percent greater than for the same period in 1963. During the preceding three years annual gains ranged between 25 percent and 40 percent.

The downturn is concentrated in the Northeast and the West. Housing in the South and North Central areas continues to gain.

It is felt that the downturn may be a brief one, since mortgage money is still in ample supply and national vacancy rates have remained fairly stable. The Bureau of the Census estimates that net new housing starts for mid-1964 through 1967 will be roughly 10 percent above the annual average for 1961-64.

Foreign Investment Earnings and Income

Earnings by United States corporations from direct investments abroad moved up 9.5 percent to \$4.6 billion in 1963. These earnings represent the share of United States parent companies in foreign branches, affiliates, and subsidiaries. The largest share of these earnings were from the petroleum industry, with total earnings of \$1.8 billion. United States manufacturing interests abroad earned \$1.5 billion.

Income from direct investments remitted to this country as dividends, interest, and branch profits amounted to \$3.1 billion in 1963, approximately the same as in 1962. Higher income receipts of the petroleum industry were about matched by a decline in income receipts of manufacturing affiliates. Royalties and fees received from foreign interests rose 20 percent to \$600 million in 1963, continuing to grow faster than returns in the form of profits and dividends.

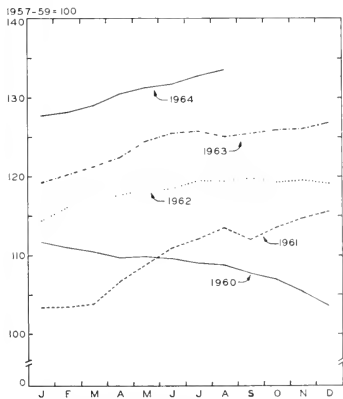
Second Quarter Merchandise Trade

Seasonally adjusted nonmilitary merchandise exports decreased by roughly 1 percent to \$6.04 billion during the April-June quarter. The small decline was due mainly to a temporary dip in exports in June. The trend in monthly exports appears almost flat since December, 1963, when the June and July figures are averaged together.

Part of the decrease reflected a fall in special grain shipments to the Soviet Bloc. Existing contracts for these shipments were virtually completed in May.

Nonmilitary merchandise imports increased by approximately 5 percent to \$4.58 billion during the second quarter. Part of the rise can be attributed to a rise in final demand and to inventory accumulation here. Overall import prices remained stable.

INDUSTRIAL PRODUCTION



Source: Federal Reserve Board.

THE GENERAL FRAMEWORK OF CONSUMER SPENDING*

ROBERT FERBER, Research Professor

The allocation of consumer spending among major categories of goods has been remarkably stable during the current upswing. Approximately 14 percent of the dollars spent by consumers have gone into durable goods, 44 percent into nondurable goods, and 42 percent into services. Some shifts have taken place within these broad categories. For example, less of the consumer dollar has been going into clothing and shoes, and more into housing, home maintenance, automobiles and parts. But these shifts do not appear to be particularly large.

In contrast, there has been a pronounced shift in the proportion of disposable income that is not being spent. In terms of the customary approach of dividing disposable income, minus total consumption expenditures, by disposable income, we find that the saving ratio this year might be close to 8 percent. By comparison, the saving ratio for 1963 was 6.8 percent and, at the start of this decade, was only 6 percent. A shift of 1 percent may not sound large. In terms of dollars, however, it means that consumers this year are putting into savings roughly \$5 billion more than they put into savings last year (see chart).

The extent to which income is being put into savings takes on even more significance when we realize that a certain proportion of consumption expenditures are made not out of income but out of borrowing. Hence, in a gross sense, to get a more realistic measure of the extent to which saving is made out of income, we should reduce consumption expenditures by the amount by which such expenditures are being financed by credit.

Although the available data are not suited for this purpose, rough estimates of the necessary magnitudes can be made. Doing so, we find that saving during the current year represents not 8 percent of disposable income but is more of the order of 22 percent. In other words, it appears that more than one-fifth of the disposable income of consumers during the current year is going into saving. (Actually, this percentage overstates the saving ratio insofar as borrowed funds are used for investment purposes, but such uses are of relatively minor importance.) By comparison, corresponding figures for this adjusted saving ratio are 17.4 percent for 1960 and a little over 21 percent for last year.

Even in a net sense, the true extent of saving out of disposable income exceeds that shown by government statistics, to the extent that new consumer credit exceeds repayments. For example, if during the current year new borrowing exceeds repayments by about \$7 billion, as seems likely, this means that in a net sense these \$7 billion represent a source of funds used for purchases other than disposable income. As a result consumption expenditures made out of disposable income should be reduced by \$7 billion, and saving increased accordingly. Hence, a more accurate estimate of the proportion of personal income after tax being saved in the current year is not 8 percent but more of the order of 9 percent.

What underlies consumer propensities to spend or save out of income? Some idea of these influencing factors can be obtained if we consider what are perhaps the three basic forces underlying consumer behavior. These are

(1) The structural changes that are taking place in the economy.

(2) The factors influencing the ability of consumers to purchase goods and services.

(3) The willingness of consumers to purchase goods and services.

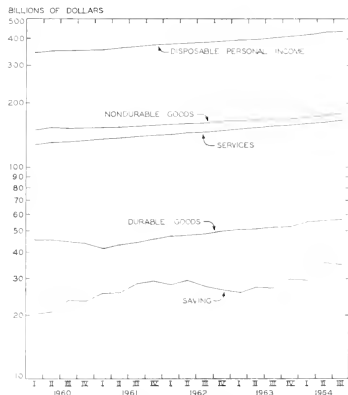
Structural Changes

Perhaps the most pronounced structural change affecting consumer spending is the continuing increase in size of our population and the rapid changes that are taking place in its composition. Within a few years, our total population should pass the 200-million mark. In the first four years of this decade alone nearly 12 million people have been added to our population. At the same time, the nation's households now exceed 56 million, with this number rising by nearly 1 million a year so far in the 1960's.

Supplementing these population increases is the very high mobility and changing composition of the population. It is interesting to note that every year in the past few years nearly one-fifth of our population has moved to a different house. Over a five-year period, from 1955 to 1960, nearly half of our population had moved at least once. These moves are not random and generally reflect a continuing migration into the urban areas, which offer greater job opportunities and rising levels of income. Thus, by the beginning of this decade, 70 percent of our population lived in urban areas as compared with only 64 percent in 1950 and 56 percent just before the start of World War II.

The composition of the population is also undergoing significant changes. In particular, the proportions of youths, 18-24, and of younger people in the main working

AGGREGATE EXPENDITURES AND SAVING, 1960-64



Source: U.S. Department of Commerce.

* Based on a talk given at the Conference on the Economic Outlook of the National Industrial Conference Board, New York City, September 17, 1964.

ages, 25-44, are expected to rise substantially in the next two decades. Those aged 18-24 should increase by nearly 1 million per year during the remainder of this decade. As a result, the size of the labor force is expected to increase from roughly 75 million at the present time to over 85 million by 1970 and possibly to as high as 95 million by 1975. Assuming that we can maintain reasonably full employment, these figures suggest a tremendous increase in consumer purchasing power out of current income, not to mention purchasing power out of consumer assets.

Ability to Spend

That consumers have increasing resources with which to purchase goods and services is clear when we consider the three principal sources of funds for such purchases— income, assets, and the credit available to consumers. In theory, the funds available for spending represent the sum of all three magnitudes. In practice, however, people are inherently reluctant to spend much out of assets, although this reluctance may be breaking down with the rising levels of income and the ever increasing financial resources. In addition, consumer credit is a fairly volatile source of funds and this magnitude can be altered quickly if consumers so choose. However, since the post-war period, with few exceptions, consumer credit outstanding has moved in only one direction, upward.

The fact remains that in terms of all three of these sources of funds, consumers have been increasingly well off during the past year, and things are likely to continue that way at least well into next year. The disposable income of consumers should rise nearly 7 percent this year to about \$430 billion. Part of this rise is due to price increases, but most of it still represents a real increase in purchasing power. The average consumer unit this year should earn nearly \$8,000 before taxes, and there are nearly 60 million such units. Moreover, nearly 80 percent of consumer units should earn over \$3,000 this year and the percentage earning over \$10,000 should be close to 20 percent. Clearly, therefore, current purchasing power is of a very high order of magnitude.

Nevertheless, even these figures tend to be dwarfed by the increase in the amount of savings in the hands of individuals. Although exact figures are not available, indications are that the financial assets in the hands of individuals have roughly doubled in the past decade. At the beginning of this year the net worth of individuals was approximately \$1 trillion, or an average of over \$5,000 per capita. To be sure, such holdings are highly concentrated, but estimates suggest that more than one-half of American families will have net worth of \$5,000 or more by the end of this year.

This increase in financial assets of consumers has, if anything, been more pronounced than the increase in disposable income. Whereas 10 years ago consumer net worth was less than twice the amount of the year's disposable income, at the present time net worth appears to be more than 2½ times the annual rate of disposable income. In other words, net worth has risen half again as fast as disposable income.

Moreover, substantial amounts of these assets are in relatively liquid form. At the beginning of this year nearly \$375 billion was in currency, demand deposits, savings bonds, or savings accounts. These are substantial amounts if consumers should decide to use them for purchasing goods or services.

The third principal financial resource, consumer credit, has been rising also. Total short-term credit outstanding

at the beginning of this year amounted to nearly \$70 billion while mortgage debt outstanding amounted to \$174 billion, both figures representing increases of roughly 10 percent over the preceding year. It should be noted that these increases are somewhat more than the increases in disposable income; this means that the ratio of income to short-term credit is declining to less than 6 in the current year, and the ratio of disposable income to mortgage debt is declining to roughly 2.3. For comparison, the ratios in 1959 were 6.5 and 2.8, respectively.

Willingness to Spend

So far as we can tell from recent surveys of consumer buying plans and consumer attitudes, people continue to be in a buying mood. The tax cut undoubtedly helped; altogether tax cuts during the current year have amounted to about \$10 billion. This figure is composed of an estimated \$6 billion cut in personal income tax liabilities, a reduction of \$1.5 billion in corporate income tax liabilities, and a \$2.5 billion reduction to business made possible through the investment tax credit and various administrative changes in depreciation tax rules. In addition, the Revenue Act of 1964 provides for an automatic further tax cut of roughly \$3 billion in individual income tax liabilities and of \$750 million in corporate tax liabilities.

The main effect of the cut was apparently to increase most expenditures more or less uniformly; it does not seem to have produced any major shift in expenditure patterns. Actually, much, if not most, of the proceeds of the tax cut appear to have gone into savings rather than into the purchase of goods and services. This is reflected by the substantial increase of \$5.7 billion in personal saving at an annual rate between the first quarter of this year and the second quarter. By comparison, expenditures for durable goods, which average twice the size of personal savings, increased only \$1.1 billion during the same period; and even expenditures for services, which average more than five times the size of personal savings, rose by only \$2.7 billion. Primarily as a result of this shift, we have witnessed from the second quarter of 1962 to the second quarter of 1964 a jump of over 30 percent in personal saving, while personal consumption expenditures were rising only 6 percent.

In terms of buying plans, consumer reports continue to be optimistic. This applies to durable goods generally—to some even more than to cars. Moreover, as of this summer, an increasing proportion of consumers reported that they were better off than ever before.

To be sure, people's thinking can change quickly, and it is therefore not wise to place much reliance on these attitudinal factors alone. However, when these factors point in the same direction as the more tangible influences of population growth, income, and wealth, they would seem to reinforce the significance of the very high purchasing power in the hands of individuals. Under the circumstances, continuation of the very high levels of consumer spending and saving would seem to be a logical expectation.

At the same time, it would not be surprising if further shifts were to be made by consumers in putting a larger share of their earnings into savings. This is particularly so in view of the increasing aggressiveness of the major types of savings institutions, many of which seem to be making effective use of modern marketing methods. The year, and years, ahead, therefore, should witness increasing financial resources in the hands of consumers but also an increasingly fierce battle to influence the consumer between spending and saving.

Fallacies About the Federal Debt

(Continued from page 2)

debt will have to be paid up sooner or later." They reason by analogy with the position of the individual. For the latter, death and taxes are sure, and if death comes too soon, other creditors will join the tax collector in levying on his estate. Organizations, however, may plan never to die. The corporation may sometimes find it convenient to reduce its debt; but if it is expanding and continually acquiring new assets, it may go on expanding its debt along with its business, year by year. The government is also a going concern. It need never pay off its debt, and in fact can go on increasing it indefinitely if the average rate of increase does not far exceed that of the national income.

Significance of the Debt Burden

In other words, neither the present nor any future generation has to be burdened with repaying the debt. All that has to be paid is the currently due interest on the debt, and our ability to pay these charges grows with the income we earn.

In the national economic accounts, federal interest payments are carried as a kind of transfer payment rather than as income earned through current production of goods or services. The government collects taxes and pays the interest due the bondholders. It transfers the funds from the one group to the other. Someone gives and someone receives, and for all of us combined, the position remains the same. Although the transfers could have various kinds of economic effects, no matter how high they get, we cannot all go broke.

The problem, if any, is political rather than economic. One can imagine a situation in which the taxes collected from one group were so oppressive and the payments to the other so extremely beneficial that the former would rebel against so radical a worsening of its position. But such conditions do not apply here. Practically all of us pay taxes, and the recipients of interest payments, directly or indirectly, are so widespread that many people are in effect merely transferring the funds from one pocket to another. In point of fact, it is more commonly the bondholders rather than the other taxpayers who complain about "the burden of the debt."

For the average taxpayer, the amount of taxes collected for other purposes is so large that he gives hardly a thought to interest charges as an item aggravating his tax bill. These charges have roughly doubled in the postwar period, with most of the increase resulting from higher interest rates rather than from additions to the total debt. But during this period, gross national product more than doubled, and total government receipts also advanced more rapidly than interest payments. The latter, at \$10 billion, were only one-tenth of total budget expenditures in fiscal 1964.

No Present Danger in Deficit Finance

Many analysts now feel that the total of the federal debt is no longer important, since it is only half as large as our annual gross national product, instead of something more than the total, as it was at the end of the war. Some of them nevertheless fear that *changes* in the debt, if they are not carefully controlled, might still pose substantial dangers. Naturally enough, in the course of this long postwar prosperity, these fears have become focused mainly on the possibilities of renewed inflation.

The fears would certainly be justified if one could

conceive of large federal deficits, say, of the wartime magnitude of \$50 billion a year, at a time when the private sector was experiencing strong expansion. Such a prospect, however, is farfetched. Prosperity in the private economy holds down government deficits because progressive taxes on personal and corporate incomes rapidly expand government receipts. The experience of recent months shows how growth in income holds down the increase in the deficit otherwise to be expected from enactment of the tax cut. It would be a mistake, of course, to think that there is some kind of magic in deficits which makes them self-eliminating, but their increase is always bound to be less than an increase in government expenditures or a reduction in taxes because the response of the economy produces higher tax receipts.

In the early 1960's, yearly budget deficits have averaged about \$5 billion, or only 1 percent of gross national product. If the public debt continued to grow by the same amount each year, it could continue to fall further in relation to our national income. Despite the fact that the deficit is larger than average this year, no overall inflationary pressure has developed. Furthermore, there is little prospect that unemployment will be brought down to the desired level in the year ahead. This leads some to conclude that the federal budget is still biased toward deflation and will put too much "fiscal drag" on the economy as full employment is approached.

Danger in Private Borrowing

If there is any difficulty to be faced from the increase in debt, it lies in the private sector. Annual increases in private debt have been about 10 times as large as the increases in federal debt during the last few years. The danger here lies in the possibility that this debt expansion will be cut back sharply, bringing on another recession in business activity. The federal deficit would then rise with the fall in private incomes, and the debt would then expand faster, offsetting part of the savings no longer used in the private sector.

When savings are used to pay off debt instead of to finance investment and consumption, the economy is depressed. Any decline tends to deflate prices of capital goods and to undermine the foundation of security for our huge private debt. If incomes and prices of real capital goods should fall, any substantial forced liquidation of debt would aggravate the increase in unemployment and tend to crack the structure of private credit.

Anyone who advocates tight money and a balanced budget is implicitly willing to have us assume the risks of deflation. Perhaps there are some who want deflation. More likely, confusion leads some holders of claims to think that they could benefit from both higher interest rates and growing real values per dollar of credit. They do not see that they are risking the country's basic social and political system. It is a paradox that this kind of policy should be referred to as fiscal responsibility.

Through almost two decades of prosperity, the status of the federal debt has improved while the private economy has been losing liquidity. In a period of adversity, many illiquid parts of the latter could become insolvent, but the government could not be threatened with insolvency in the same way. Our position will be best preserved if the government continues to borrow the savings of those who want to save in order to keep investment high and to pay what is due those who want to spend their past savings. Economic disaster would be the result if we permitted policy to shift from the prosperity path by reason of fallacies about the federal debt. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Motels

The average motel in the nation had 20 guest rooms, annual gross receipts of slightly over \$23,000, a market value of approximately \$136,000, and annual profits of roughly \$6,800, according to the results of a study of the motel industry begun in 1960 and released this summer by the University of Arizona's Bureau of Business and Public Research. Interviews were held with 2,000 motel operators in 45 states. The sample area for the Illinois region included 9 counties around Rockford. Often in small motels profits are overstated as the owner fails to charge himself a managerial salary. Receipts per room varied with the number of rooms in the motel. They averaged \$1,080 in motels with under 10 rooms and \$2,225 in motels with over 100 rooms.

The average motel guest interviewed had an income of \$9,100. Slightly over half of the guests were traveling for pleasure, one-fourth were on business trips, and one-ninth were on combined business-pleasure trips.

The most-often-stated reason for selection of a particular motel was appearance. Location and recommendations of others were also frequently mentioned. About one-fourth of those interviewed used guidebooks as a source of information. The AAA Tour Books were used by over half of these people.

The number of motels first exceeded hotels in the early 1950's. Hotels, of course, are much larger indi-

vidually. In 1939 there were 13,500 motels and 28,000 hotels. By 1954 the number of motels more than doubled to 29,400, whereas the number of hotels declined to 24,800. It was estimated in 1962 that there were approximately 30,000 hotels and 49,000 motels.

From 1948 to 1962 sales receipts of motels climbed over 650 percent to an estimated \$1.5 billion. Sales receipts of hotels over the same period rose 41 percent to about \$3.0 billion (see chart).

People in the motel business feel that the industry's most important problems are overbuilding, highway relocation, and the competition from group or chain motels. Chain and voluntary associations accounted for 18 percent of all motel rooms (1.5 percent of all motels) in 1962.

State Finances

Total revenue of all state governments was \$41 billion in fiscal 1963 or 9 percent greater than fiscal 1962 revenue. State expenditure rose 8.7 percent and amounted to \$39.6 billion or \$1.4 billion less than aggregate revenue for 1963. This spending amounted to approximately \$211 per person in the nation. In the last ten years, there were four years in which expenditure exceeded revenue. The largest overall deficits were in 1958 and 1959 when spending exceeded income by \$1.9 billion each year.

Major sources of revenue were as follows: inter-governmental revenue from the federal government, \$7.8 billion; general sales taxes, \$5.5 billion; income taxes, \$4.5 billion; motor fuel sales taxes, \$3.8 billion; and motor vehicle licenses, \$1.6 billion.

The major item of expense was education. Spending on education totaled about \$11.9 billion. Highway expenditure amounted to roughly \$8.8 billion; public welfare, \$4.6 billion; and hospital spending, \$2 billion.

Shifting Consumer Spending

Consumer spending rose over 60 percent from 1953 to 1963, but expenditures on services climbed 90 percent. Services now account for over 40 percent of all consumer expenditures.

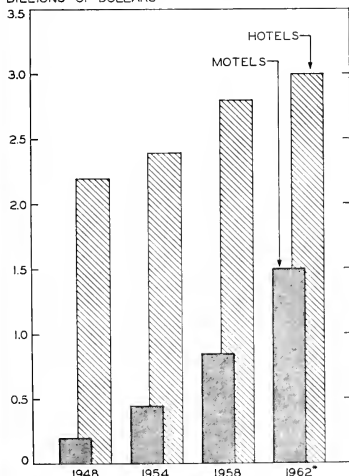
Soft goods consumption has increased an under-average 42 percent over the decade. Consumer hard goods spending has gone up about as much as total spending. Hard goods still represent approximately 14 percent of all purchases.

Within the services category, spending on a number of items went up more than 100 percent. Among these are medical care, telephone charges, legitimate theater, foreign travel, radio and television repair, private education, and research. Personal business spending, which includes life insurance expenses and interest on personal debt, is also in this group.

Money spent on recreational equipment climbed the most in the hard goods category. Books, boats, toys, and pleasure aircraft rose over 100 percent.

In soft goods, outlays went up slightly more than 50 percent for magazines, newspapers, and tobacco. Expenditures for shoes and clothing increased 40 percent. These two items comprise about one-fifth of all soft goods. Over half of all spending in this group is for food (including restaurants). This rose 34 percent in the decade, much less than the soft goods group generally.

SALES RECEIPTS OF HOTELS AND MOTELS
BILLIONS OF DOLLARS



* ESTIMATE

Source: University of Arizona, Bureau of Business and Public Research.

LOCAL ILLINOIS DEVELOPMENTS

Changing Manpower Requirements

Automation and improved production techniques will greatly alter industry demands for technically skilled workers in the next 15 or 20 years. Recent and future developments in seven basic industries in the Chicago area are discussed in *Technological Change—Its Impact on Industry in Metropolitan Chicago*. This study, conducted by Corplan Associates of the Illinois Institute of Technology Research Institute, incorporates the views of scientists, businessmen, and economists.

The report's predictions for Chicago include a drop in the employment of machinists from 12,000 in 1960 to 6,000 in 1980 and a decline in the number of tool and die makers from 9,000 to 6,000. Chicago presently has an acute shortage of men in both of these fields. During the two decades, employment of machine operators is likely to increase from 36,000 to 50,000. The greatest rise, however, is expected in the number of part-programmers (workers who prepare machining instructions for computer-controlled machine tools). It is estimated that the number employed in this relatively new occupation, although currently very small, will reach 15,000 by 1980.

These workers will probably require more training than the local metalworking industry will be able to provide. The report suggests that interested local industry, unions, and civic and educational organizations start working together to provide the necessary training facilities to meet the impending demand. Corplan Associates also recommend the introduction of technical and engineering courses on numerical control manufacturing for presently employed engineers.

Industry Expansion Covers the State

New manufacturing facilities are being planned and constructed throughout the State. One of the largest is a

\$20 million ammonia plant to be located in East Dubuque. The Illinois Commerce Commission has approved a project submitted by the Apple River Chemical Company, a subsidiary of Aurora's Northern Illinois Gas Company. The proposed 700-acre riverfront plant will employ 100 workers and produce about 1,000 tons of ammonia a day.

Toward the other end of the State, Commercial Solvent Corporation's Marion plant is undergoing expansion programs totaling over \$1 million. The plant produces ammonium nitrate for agricultural use and various nitrogen products used in special purpose explosives.

Federal-Mogul-Bower, Inc., is building a \$5 million plant in Macomb to manufacture cylindrical roller bearings. These will be sold to Midwest construction and farm equipment producers. The 275,000 square-foot facility, expected to be completed late in 1965, will employ about 500 men.

Sever pipe production will begin at Carol Stream early next year when the Streator Clay Pipe Company's new \$3 million plant starts operating. Eighty men will be employed initially in the plant, which will produce 3½ million feet of pipe annually. The building will occupy 147,000 square feet on a 40-acre site.

Stanray Corporation has broken ground in Danville for the largest small-boat manufacturing and warehousing facility in the country. The \$4 million plant will produce fiberglass and aluminum boats, employing an initial work force of 300 men early next year.

Olin Mathieson Chemical Company is constructing a \$1 million plant in the Wheeling Industrial Center. The factory, which will cover 120,000 square feet, will manufacture paperboard boxes.

Higher Levels of Personal Income

United States and Illinois personal income figures—on both total and per capita bases—continued to reach new record highs in 1963. Total personal income in the United States reached \$461.6 billion, with Illinois accounting for slightly over \$30 billion or 6.5 percent of the total. New York and California were the only states with larger shares of the total.

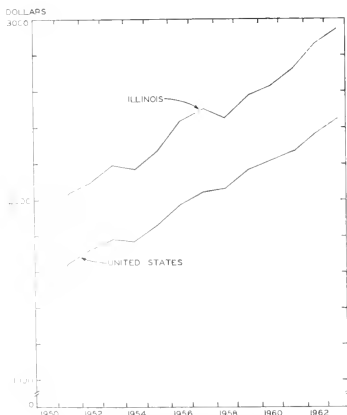
Illinois remained considerably above the national average in per capita personal income. However, the United States showed a slightly higher rate of increase over 1962. (See chart.) Nevada, the District of Columbia, Delaware, Connecticut, New York, and California had the highest per capita incomes in that order, with Illinois ranking seventh. These positions have been quite stable over recent years.

Chief sources of civilian income for current production as percentages of the total were as follows:

	Illinois	United States
Manufacturing	33.32	29.22
Wholesale and retail trade	19.91	19.06
Services	13.04	13.53
Government	10.10	13.23
Contract construction	5.73	6.36
Finance, insurance, and real estate	5.30	5.23
All other	12.60	13.37
Total	100.00	100.00

In the "all other" category, Illinois had a higher percentage than the United States in transportation, and lower percentages in farming, mining, communications, and miscellaneous.

PER CAPITA PERSONAL INCOME



Source: U.S. Department of Commerce.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1964

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debts ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS		\$30,884	1,719.3^b			\$25,320^a	\$18,628^a
Percentage change from	July, 1964	-31.1	+4.6		+10	-10.4	+5.9
	Aug., 1963	-33.8	+10.2		+3	+0.0	+1.3
NORTHERN ILLINOIS							
Chicago		\$18,156	1,183.3			\$23,501	\$15,833
Percentage change from	July, 1964	-21.4	+2.5		+10	-10.6	+6.9
	Aug., 1963	-36.9	+8.2		+4	+0.3	+0.0
Aurora		\$1,048	n.a.			\$106	\$216
Percentage change from	July, 1964	+18.7				+6.0	-6.5
	Aug., 1963	-10.4				+10.4	+13.7
Elgin		\$313	n.a.			\$66	\$220
Percentage change from	July, 1964	-35.2			n.a.	+6.5	+3.3
	Aug., 1963	-16.1				+13.8	+20.2
Joliet		\$580	n.a.			\$109	\$138
Percentage change from	July, 1964	-39.0			+11	+1.9	+8.7
	Aug., 1963	-19.9			+2	+2.8	+17.9
Kankakee		\$182	n.a.			n.a.	\$81
Percentage change from	July, 1964	-53.3					+20.9
	Aug., 1963	-22.2					+12.5
Rock Island-Moline		\$1,289	70.5^b			\$149^b	\$191
Percentage change from	July, 1964	-53.0	+21.1		n.a.	-10.2	-7.7
	Aug., 1963	-19.0	+46.3			+4.2	-4.5
Rockford		\$1,697	72.0^c			\$249	\$278
Percentage change from	July, 1964	-28.8	+0.7			-5.3	+1.1
	Aug., 1963	-35.0	+10.3			+3.8	+6.9
CENTRAL ILLINOIS							
Bloomington		\$269	16.4			\$107	\$133
Percentage change from	July, 1964	-71.0	+8.6		n.a.	-9.3	-14.2
	Aug., 1963	-60.4	+7.9			+4.9	-9.5
Champaign-Urbana		\$683	27.3			\$108	\$150
Percentage change from	July, 1964	-41.6	+7.9		n.a.	-10.7	-11.2
	Aug., 1963	+67.8	+15.2			+5.9	-10.2
Danville		\$300	25.4			\$66	\$82
Percentage change from	July, 1964	-3.2	+11.9		+10	-1.5	-19.6
	Aug., 1963	-43.1	+11.9		0	+15.8	-10.9
Decatur		\$815	55.9			\$153	\$159
Percentage change from	July, 1964	-66.7	+17.2		+17 ^c	-12.6	+0.6
	Aug., 1963	-84.9	+13.8		+4 ^c	+8.5	+10.4
Galesburg		\$194	15.7			n.a.	\$61
Percentage change from	July, 1964	-0.5	+16.3				+38.6
	Aug., 1963	-59.0	+15.4				+27.1
Peoria		\$1,511	91.9^c			\$288	\$438
Percentage change from	July, 1964	-53.0	+8.1		+22	-13.3	+13.2
	Aug., 1963	-6.5	+13.5		-1	+0.7	+39.9
Quincy		\$391	21.0			\$58	\$98
Percentage change from	July, 1964	-12.2	+18.6		n.a.	-13.4	+28.9
	Aug., 1963	+63.6	+16.0			-0.0	+14.0
Springfield		\$2,960	63.3			\$171	\$364
Percentage change from	July, 1964	+29.9	-2.2		+14 ^c	-7.1	-1.4
	Aug., 1963	+251.1	+5.1		-2 ^c	+8.2	+8.0
SOUTHERN ILLINOIS							
East St. Louis		\$110	22.9			\$137	\$84
Percentage change from	July, 1964	-65.3	+9.0		n.a.	-4.9	+3.7
	Aug., 1963	+18.3	+8.0			+3.8	-2.3
Alton		\$134	32.3			\$50	\$42
Percentage change from	July, 1964	-91.2	+9.9		n.a.	-18.0	-14.3
	Aug., 1963	-60.6	+6.2			+2.0	-2.3
Belleville		\$252	21.4			n.a.	\$64
Percentage change from	July, 1964	-70.2	+19.6		n.a.		-3.0
	Aug., 1963	-57.2	+17.6				-3.0

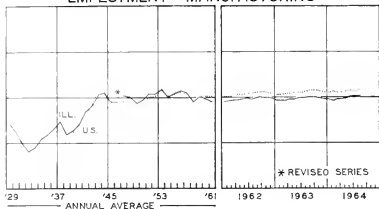
^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending September 11, 1964, and September 13, 1963.

INDEXES OF BUSINESS ACTIVITY

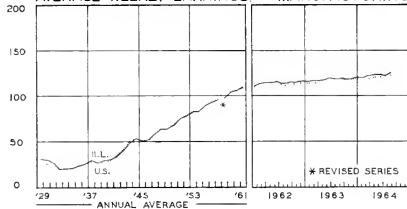
1957-1959 = 100

Illinois Historical Survey
416 Lincoln Hall

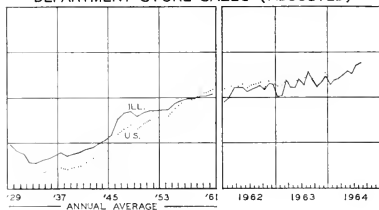
EMPLOYMENT - MANUFACTURING



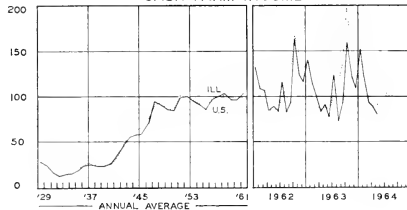
AVERAGE WEEKLY EARNINGS - MANUFACTURING



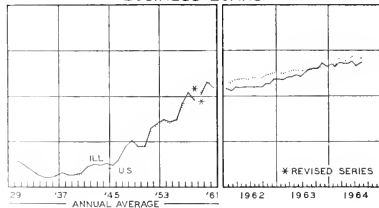
DEPARTMENT STORE SALES (ADJUSTED)



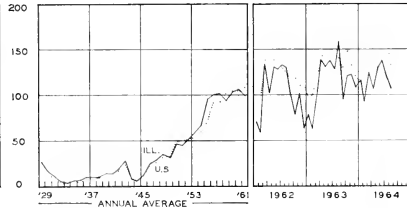
CASH FARM INCOME



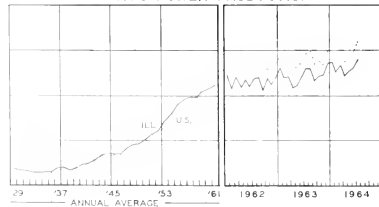
BUSINESS LOANS



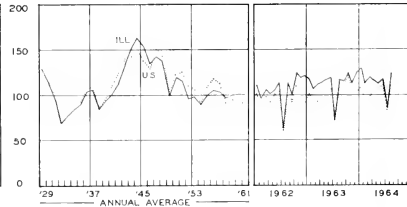
CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



COAL PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

NOVEMBER, 1964

NUMBER 10

HIGHLIGHTS OF BUSINESS IN OCTOBER

The current phase of business expansion continued moving toward the longest of the postwar period in October. The strike at General Motors plants held down production of automobiles to 411,000 units, little more than half the output of the year-earlier month and the lowest October total since 1958, but most other industries ran well ahead of October, 1963, and subsequent months. Sales of new American-built passenger cars were down 27 percent from October last year to 566,000 units, but other retail lines did well.

Pressure to increase prices was evident in some industries, most notably in steel. Despite indicated opposition by President Johnson to a steel price rise, higher prices on certain steel products have been instituted. Higher prices for meat, housing, and apparel were responsible for a 0.2 percent increase in the consumer price index for September; the index stood at 108.4 percent of the 1957-59 average with another advance expected for October.

Construction Steady

The value of total new construction put in place during October amounted to \$6.1 billion, nearly the same as the estimate for September and only slightly higher than that for October a year ago. The seasonally adjusted annual rate was up less than 1 percent from September, 1964. In 1957-59 dollars, the October total was down 1 percent from the year-earlier figure.

Private construction expenditures accounted for \$4.1 billion of the October, 1964, total. This was 2 percent below the preceding month and about the same as October a year ago. Spending for construction of new private nonfarm residential buildings amounted to \$2.3 billion, down \$100 million from September and from October, 1963. In 1957-59 dollars the decline over the year was equal to 6 percent. Public construction expenditures remained at the September, 1964, figure of \$2 billion, but were 3 percent higher than in October a year ago.

Capital Spending Up

The McGraw-Hill survey of anticipated expenditures for new plant and equipment indicates that outlays in 1965 may reach a record \$46.8 billion, about 5 percent more than preliminary estimates for this year. Manufacturers generally plan to raise their capital spending more than do firms in other industries. The former expect to spend \$20.1 billion in 1965, 8 percent more than in 1964,

with plans ranging from a 3 percent cutback by nonferrous metal producers to a 24 percent increase by chemical manufacturers. Among nonmanufacturing industries, expected changes in capital outlays vary from a cutback of 4 percent in mining to a 9 percent increase over 1964 by airlines.

The survey also found that manufacturers were operating at 86 percent of capacity in September, about 1 percentage point higher than at the end of last year and 6 percentage points under their preferred operating rate. A rise of 6 percent in sales next year is anticipated by the manufacturers surveyed.

European Common Market Threatened

Movements toward European economic integration were buffeted by two blows in October. France announced that it will "cease to participate" in the European Economic Community or Common Market if the West German government does not agree to lower its wheat prices to a common figure of \$106.25 a ton, as agreed by the experts of the Common Market. Fearful of the farm vote in next year's election, the West German government has been reluctant to lower its support price. However, after the French threat it did agree to some reduction.

Also in October Britain's new Labor government introduced a temporary 15 percent surcharge on imports other than foodstuffs and basic raw materials and also provided tax incentives for exports as part of a program to meet Britain's balance-of-payments deficit of about \$2 billion this year. The Labor government stressed the temporary nature of the measures and insisted that they would not affect Britain's determination to seek worldwide tariff reductions in the Kennedy round of negotiations under GATT or elimination of tariffs in the European Free Trade Association (in which she is a member along with the Scandinavian countries, Portugal, Switzerland, and Austria).

Despite these assurances, the reaction in Europe to the measures was generally critical. Many pointed out that they were in violation of the GATT and EFTA charters. The duties more than offset the reductions that had been made over the years in the rates on some commodities by the EFTA. There was some fear that other countries would retaliate, since the exports of most members of EEC and EFTA will be affected and some of them buy more from Britain than they sell to her.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

408 David Kinley Hall, Urbana, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

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The Investment Boom

Both business investment and the flow of funds available to business have been rising sharply. New plant and equipment expenditures will exceed \$44 billion in 1964, after an increase of \$5 billion from 1963. The rise in corporate profits after tax has accelerated this year and will more than match the \$5 billion increase in capital outlays, bringing total profits to about \$32 billion. In addition, depreciation and similar charges have been rising about \$2 billion a year and will exceed \$53 billion this year. Business is thus amply supplied with internal financing.

This business affluence was largely a matter of policy, and the Administration has openly boasted of the success of its policies in stimulating business investment. The 1962 revision of depreciation guidelines and the investment credit adopted at the same time added \$2.5 billion a year to an already record corporate cash flow. As part of this year's tax reduction program, the rates on corporate income were lowered by 2 percent this year and a like percentage next year, so that after-tax income will be increased 8 percent when the reductions are fully effective. Terborgh has shown that these are indeed high benefits to investment. (See *Incentive Value of the Investment Credit, the Guideline Depreciation System, and the Corporate Rate Reduction*, Machinery and Allied Products Institute, 1964.) He finds that the three measures combined have the effect of raising the after-tax rate of return on equity investment by 35 percent. This is equivalent to a reduction of the corporate tax rate by 18 percentage points, from 52 to 34, or to a reduction in the price of capital equipment of 16 percent.

More Cash for Management

An additional benefit from these three incentive measures derives from speeding up the cash recovery from investment. Recent theory of business operation has placed great emphasis on quick recovery, since "flexibility" facilitates shifting to new product lines or undertaking new projects when opportunities are encountered. Cash flow has also gained increasing attention in the stock market, where analysts often consider it more significant than just the part reported as earnings (the latter being reduced, of course, by the accelerated amortization).

Management definitely has a greater flow of funds to play around with and is able to use them in many ways.

Investment in new facilities is one; paying higher dividends is another; buying up somebody else's assets and merging them into a larger corporate entity is another; purchasing government or other securities is another; and investing in foreign enterprises is still another. All of these alternatives have been adopted to some extent. Obviously, their effects vary widely.

The question may be asked, "What should business be expected to do?" The answers to this question are generally given in such terms as produce for customers' needs, improve efficiency, keep prices down, maintain capacity, build new facilities, and conduct research to develop new products or new processes of production. Perhaps all these various objectives may be summarized by saying that the community should be able to expect business to use the available resources productively.

Is this the case? Clearly, few observers have been inclined to pass harsh judgment on the developments of the last few years. Even allowing for numerous exceptions, corporations seem to be living up to their tasks fairly well. Given the goals, standards, and methods of American business, it is an effective system for fast progress when the demands for its products are adequate. One is therefore inclined to be tolerant of the policymakers' pride in recent economic successes.

Growth of Instability

There is, however, a serious fallacy in this line of thinking. It lies in the assumption that what is now going on will continue indefinitely. A long period of prosperity always induces hope for a constantly rising future. Currently, the foundation for those hopes is bolstered by overconfidence in fiscal policy, based on a single outstanding success, and by too-easy identification of available funds with new investment expenditures.

Overlooked is the built-in instability of an investment boom that results from a spurt in final demand or other temporary stimuli. The basic cyclical problem of an industrial economy derives from the potential overstimulation arising from such developments. Some subsequent letdown is typically experienced because the additions to stocks of productive facilities are cumulative, continuing to mount as long as the high rate of investment is maintained, while the increased demand arising from the investment expenditures is held to the level set by the rate of investment and the income multiplier.

A further difficulty has to be faced. Depreciation charges are closely tied to the capital stock and tend to remain high after pressure of demand cases. Profits also tend to be held high by cost-reducing investments and by the ability to cut back high nonoperating expenditures. With the flow of funds thus sustained, any reduction in new investment tends to expand corporate cash saving sharply, leaving at least some with idle balances. If conditions change, this could occur in spite of any policies the government might adopt.

What cannot be seen so long as conditions of high prosperity prevail is that instability has grown—with high investment, with the expanded flow of funds intended to stimulate investment, with business practices relating to prices and control of nonoperating expenditures, and with the extreme diversion of credit to financing of consumers' capital formation. At some point, the entire burden of maintaining activity is likely to be thrown on the government. The potential magnitude of the load calls in question the assurance with which our ability to stabilize the economy is being asserted. VLB

GRAIN PRODUCTION ON ILLINOIS FARMS

Grain crops of Illinois farms make up an important part of total national grain production. In 1963, 23 percent of the nation's soybean crop was grown on Illinois farms, as were 18 percent of the corn, 8 percent of the oats, and 6 percent of the wheat. Grain sales account for about 40 percent of gross farm income in the State.

Corn the Leader

Corn is the major cash grain crop in Illinois. In 1963, a record crop of 752 million bushels of corn was grown on Illinois farms with heaviest production in the northern two-thirds of the State. This amounted to 53 percent of the total value of Illinois crops. With a record average yield of 85 bushels per acre on 8.8 million acres and an average price of \$1.09 a bushel, the harvest had a value of \$820 million.

About 375 million bushels a year, or over one-half of the state's corn crop, is sold off the farms on which it is grown. These sales account for about 20 percent of the gross farm income in the State.

Corn sales are heaviest in the months at the end of harvest, averaging 13 percent in October and 15 percent in November. They are little more than one-third as high in the summer months preceding the new harvest and hold close to a twelfth of the total in each of the intervening months. This seasonal pattern has been regular from year to year, though there is an increasing tendency for more sales at the end of harvest as a result of changing methods. New picker-shellers and corn combines shell the corn as it is harvested. The majority of the state's farms do not at present have adequate drying and storing facilities for shelled corn and must sell it directly to country elevators. Price fluctuations, unlike sales, show no regular seasonal pattern.

Soybean Demand Increasing

Soybeans are the second most valuable grain crop to Illinois farmers, bringing in about 15 percent of gross farm income. Slightly over 5.5 million acres have been harvested in each of the past three years with the average price ranging from \$2.33 in 1961 to \$2.65 in 1963. The 164-million-bushel crop of 1963 had a value of \$436 million.

Prices of soybeans vary considerably from month to month and the pattern of monthly change shows considerable variation from year to year. Aside from a general tendency for low prices during harvest and moderately higher prices during the spring, no consistent pattern is evident. These irregular fluctuations increase the chance that carrying costs will not be recovered if the crop is held. One factor lessening this risk somewhat is the long-run increasing demand for soybeans.

This rising demand for soybeans has been a boon to Illinois farmers. With overproduction in the other major grains keeping prices low and causing acreage restrictions, the farmers would be in serious economic trouble were it not for soybeans. An indication of the extent of this increased demand is the fact that from 1949 to 1962, exports rose from 13 million bushels to 180 million bushels.

During the same period the quantity used for oil or meal increased from 195 million to 474 million bushels.

Other Grain Crops

Wheat, oats, barley, rye, and sorghums are the other grains raised in Illinois. In 1963 there were 3.3 million acres of these crops harvested, of which wheat was the most important, with 1.8 million acres. Most wheat is grown in the area between the center and the lower one-sixth of the State. Nearly all of the wheat not used for seed is sold off farms. At an average price of \$1.80 a bushel the record 71 million bushels sold last year had a value of \$129 million, or 8.3 percent of total crop value in the State and about 5 percent of gross farm income.

Because it is difficult to maintain quality, wheat is seldom held beyond harvest. Sales averages from 1952 to 1962 show that 81 percent of the wheat crop is sold during the harvest months of July and August.

The oat crop is the fourth most valuable grain crop in the State, with a 1963 value of \$51 million, but its importance is declining compared with that of corn, soybeans, and wheat. Although a record yield of 57 bushels per acre was produced in 1963, the total output of 81 million bushels on 1.4 million acres was only slightly greater than in 1962, which was the lowest in 34 years. A good explanation for this decline may be found in the fact that the average value per acre of the oat crop was \$36 in 1963, compared with \$93 per acre for corn. The two crops are grown in the same area of the State.

Most of the oat crop remains on farms. Only about 37 percent of it, or an average of 30 million bushels per year, is sold. These sales account for 1 percent of gross farm income.

Barley, rye, and sorghums are of much less economic importance than wheat or oats. Combined production of these three in 1963 amounted to only 2.7 million bushels from 96,000 acres. Their total value was \$2.6 million.

Department of Agriculture estimates of 1964 grain production in Illinois indicate that it will be below that of last year. The principal reason has been the summer-long drought, which has reduced yields on all grains. Corn yield is estimated at 78 bushels per acre (85 in 1963) and total production for this year is estimated at 697 million bushels. Soybean yield is expected to average 24.5 bushels per acre, down from 29.5 bushels per acre last year. Output will be about 141 million bushels. Wheat output is estimated to be 69 million bushels, with a yield of 37 bushels per acre, down from last year's 40 bushels per acre.

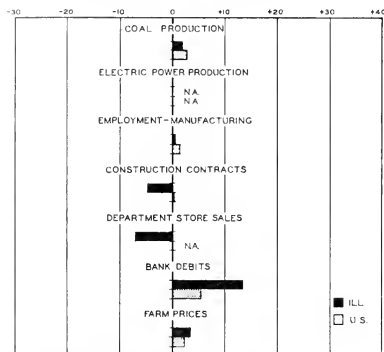
In spite of the lower yields this year, total production will still be relatively high. The corn output is expected to be the second greatest ever recorded in the State. The estimated wheat output is the second largest since 1919. Even the expected soybean production, down 16 percent from 1963, will be greater than outputs up to 1960. And in light of the strong demand for soybeans, prices will probably be high this year, enabling soybean farmers to earn nearly as much as they did last year. It appears that even a very dry year cannot do much to slow the ever increasing output on Illinois farms.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS^a

Percentage changes, August, 1964, to September, 1964



^a Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Sept. 1964 (1957-59 = 100)	Percentage change from Aug. 1964	Sept. 1963
Employment—manufacturing ¹ ...	102.3	+ 0.5	+ 3.1
Weekly earnings—manufacturing ¹ ...	124.0 ^b	+ 0.8	+ 3.4
Consumer prices in Chicago ² ...	106.3	0.0	+ 0.3
Life insurance sales (ordinary) ³ ...	136.7	+ 2.9	+ 8.0
Dept. store sales in Chicago ⁴ ...	129.0 ^b	+ 7.2	+ 7.5
Farm prices ⁵ ...	97.0	+ 3.2	+ 1.0
Bank debits ⁶ ...	172.8	+13.4	+17.4
Construction contracts ⁷ ...	103.5	+ 4.8	+18.3
Electric power ⁸ ...	129.2	+ 5.8	+10.8
Coal production ⁹ ...	126.0	+ 1.9	+ 9.5
Petroleum production ¹⁰ ...	86.6	+ 3.8	+ 7.5

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Acy. Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Geol. Survey.

^a Preliminary. ^b Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Sept. 1964	Percentage change from Aug. 1964	Sept. 1963
Personal income ¹ in billion \$	497.1 ^a	+ 0.4	+ 6.0
Manufacturing ¹			
Sales	447.6 ^a	+ 0.3	+ 7.5
Inventories	61.0 ^{a, b}	+ 0.5	+ 3.2
New construction activity ¹			
Private residential	29.1	+ 2.7	+ 0.2
Private nonresidential	21.1	+ 0.9	+ 5.9
Total public	23.4	+ 0.9	+ 5.5
Foreign trade ¹			
Merchandise exports	23.3 ^c	+ 7.0	+ 3.3
Merchandise imports	17.9 ^c	+ 7.5	+ 2.8
Excess of exports	5.4 ^c	+ 5.5	+ 6.8
Consumer credit outstanding ²			
Total credit	73.5 ^b	+ 0.6	+10.5
Instalment credit	57.4 ^b	+ 0.7	+11.1
Business loans ³	46.0 ^b	+ 2.3	+ 9.9
Cash farm income ³	41.2 ^c	+25.9	+10.7
Industrial production ²			
Combined index	134 ^a	+ 0.1	+ 6.5
Durable manufactures	136 ^a	+ 0.3	+ 8.0
Nondurable manufactures	134 ^a	+ 0.5	+ 5.3
Minerals	113 ^a	+ 0.4	+ 2.8
Manufacturing employment ¹			
Production workers	103 ^a	+ 0.5	+ 2.7
Factory worker earnings ⁴			
Average hours worked	102	+ 0.7	+ 0.2
Average hourly earnings	120	+ 1.6	+ 3.6
Average weekly earnings	122	+ 0.8	+ 3.4
Construction contracts ⁵	131	+ 0.1	+ 1.5
Department store sales ⁶	n.a.		
Consumer price index ⁷	108	+ 0.2	+ 1.2
Wholesale prices ⁸			
All commodities	101	+ 0.4	+ 0.4
Farm products	96	+ 2.1	+ 0.1
Foods	102	+ 1.2	+ 1.3
Other	101	0.0	+ 0.4
Farm prices ⁹			
Received by farmers	98	+ 2.1	+ 2.0
Paid by farmers	107	0.0	+ 0.9
Parity ratio	75 ^d	+ 1.4	+ 3.8

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for August, 1964, compared with July, 1964, and August, 1963. ⁹ Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1964					1963
	Oct. 31	Oct. 24	Oct. 17	Oct. 10	Oct. 3	Nov. 2
Production:						
Bituminous coal (daily avg.)...	1,758	1,728	1,690	1,678	1,637	1,628
Electric power by utilities...	18,411	18,341	18,074	18,245	18,331	17,457
Motor vehicles (Wards)...	142	108	101	97	101	208
Petroleum (daily avg.)...	7,716	7,658	7,652	7,638	7,621	7,571
Steel...	141.9	140.7	139.5	138.0	137.6	104.4
Freight carloadings...	657	646	639	633	619	623
Retail sales...	5,006	4,879	4,939	5,005	5,311	4,946
Commodity prices, wholesale:						
All commodities...	100.5	100.6	100.6	100.6	100.5	100.5 ^a
Other than farm products and foods	101.4	101.4	101.3	101.3	101.1	100.9 ^a
22 commodities...	102.9	102.6	102.1	101.6	101.1	96.2
Finance:						
Business loans...	39,886	39,913	39,964	39,743	38,153	36,296
Failures, industrial and commercial	249	232	233	246	268	285

Source: Survey of Current Business, Weekly Supplements.

^a Monthly index for October, 1963.

RECENT ECONOMIC CHANGES

State Unemployment Insurance Programs

From January to September the number of insured unemployed under state programs declined from roughly 2.4 million to 1.15 million. The September figure is about 137,000 less than the year-earlier total. The number of insured unemployed has been approximately 10 percent less so far this year than in 1963 (see chart).

Insured unemployment usually decreases about 44 percent from January to September but this year the decline over that period was 52 percent. The seasonally adjusted rate of insured joblessness fell to 3.5 percent in September, which is the lowest adjusted rate for any month since August, 1957.

Family Incomes

From 1962 to 1963 median money incomes of families increased 5 percent, or \$290, to \$6,200. The 1963 figure is more than double that for 1947, when the median was approximately \$3,000. Because of price increases, however, purchasing power has risen only about 60 percent since 1947.

There were 47.4 million families (groups of two or more related persons living together) in the United States in 1963. Slightly more than 20 million families, or 42 percent, reported money incomes of \$7,000 or more, a gain of about 2 million families in this class from 1962. Families with incomes between \$5,000 and \$7,000 numbered 10.1 million, or 21 percent. About 8.8 million families, or 19 percent, received money incomes below \$3,000. The number of families in this income class declined by roughly 500,000 between 1962 and 1963.

Family income tends to rise as the family head approaches middle age and declines thereafter. The 1963 median for families in which the head was under 25 was \$4,200, whereas families with heads between 45 and 54

had median incomes of \$7,400. The median then declined to \$3,400 for those over 65.

Level of education is also reflected in income levels. The median income of families whose heads had no more than 8 years of education was \$5,300. The median money income of families whose heads had only a high school education was \$6,800 and that of college graduates' families was \$9,700.

Wholesale Price Movements

Preliminary reports indicate that wholesale prices generally remained fairly steady in September, despite the long period of business expansion. The index for September stood at 100.7 (1957-59 = 100); this was 0.4 percent above the August figure and the same percentage above the September, 1963, level.

Prices of farm products rose 1.6 points in September to 99.3 after falling 0.4 point in August to 97.7. The September index was 0.8 percent above the year-earlier figure. Processed food prices increased 1.2 points to 102.2. Metal prices remained at the 38-year high of 103 reached in August. Nonferrous metals climbed to 107 owing to the strong demand and tight supplies of copper scrap, tin, mercury, and brass.

Gasoline prices were lower because of a high rate of crude production and sharp competition. Lumber prices, at 100.6, were 0.3 percent below the August level and 0.7 percent below the September, 1963, level, reflecting the slowdown in residential building. Prices of rubber and rubber products remained virtually unchanged from August but were 1.5 percent below the year-ago figure. Price movements of other commodities were generally not significant.

Retail Sales

September retail sales decreased by about 1 percent to a seasonally adjusted figure of \$22 billion from the August total of approximately \$22.3 billion. The September total was 8 percent higher than retail sales for the corresponding month of the preceding year, however.

Sales of nondurable goods declined by 3 percent from the August level of \$14.6 billion. Food store sales were up slightly, but this increase was more than offset by declines in other soft goods such as apparel. Durable goods sales rose 2 percent to a seasonally adjusted \$7.4 billion. This increase was mostly in auto sales and in lumber, hardware, and farm equipment.

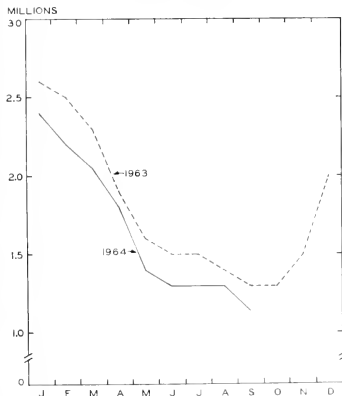
Moderate Rise in Inventories

One of the characteristics of the current business expansion is the apparent lack of excessive inventory building. Stocks are being accumulated moderately but they have drifted lower relative to sales (see chart, p. 8). Additions to nonfarm stocks this year have been at an average below that of the previous two years. At a seasonally adjusted annual rate, additions to business inventories in the first three quarters of 1964 have averaged \$2.4 billion. This is less than half the rate of accumulation in 1962 when inventories increased by \$5.3 billion and well below the \$3.9 billion rise of 1963.

Since early 1963 the difference between the current pattern of inventory change and those of other postwar business cycles has been marked. Stock-sales ratios have

(Continued on page 8)

STATE PROGRAMS OF INSURED UNEMPLOYMENT



Source: U.S. Department of Labor.

SIGNIFICANT TRENDS IN AGRICULTURE

HAROLD G. HALCROW
Head of Department of Agricultural Economics

Significant social and economic changes are occurring in agriculture as a result of (1) the strong growth in output and markets, (2) major shifts in production and marketing practices, and (3) the decrease in farm population and growing urban influences in the farm community.

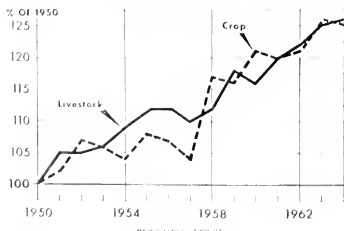
Growth in Output and Consumption

Gross farm output has increased by about one-third in the 20 years since the close of World War II. This upward trend is continuing at the rate of about 2.5 percent a year (see Chart 1). Since the population of the United States is increasing at less than 2 percent a year the growth in production provides significant improvements in diet at decreasing cost. The proportion of consumer income spent for food has been declining slowly until food now takes less than one-fifth of the disposable income. By any measurement, the high-quality diet available to the American people is cheap compared with that of most other advanced countries.

This increase in output has, on the other hand, weakened the terms of trade of our farmers. That is, farm product prices are low in relation to prices paid for goods used in farm production. This fact is observed in the familiar parity indexes—the ratio of prices paid to prices received. From 1912 through 1951, the parity ratio averaged about 8 points above the 1910-14 base, set at 100. In 1952, it was at 100. In the next five years it fell by about one-fifth and is now fluctuating a little below 80 (see Chart 2).

There is little in the current outlook to suggest that farm prices will increase significantly. We have experimented rather boldly with crop production control in an attempt to raise prices. We have subsidized exports heavily in an attempt to expand sales abroad, and to a more modest degree, we have subsidized certain classes of consumers in the hope of increasing the consumption of food. No doubt these programs have helped to clear markets, but they have not improved and, barring stronger measures, they are not likely to improve the terms of trade of farmers. This is true in spite of the fact that the Department of Agriculture is spending about \$7 billion a year, or nearly 60 percent of the estimated net income from farming. A decade ago the comparable outlay was less than \$2 billion a year.

CHART 1. CROP AND LIVESTOCK PRODUCTION



Source: U.S. Department of Agriculture.

The parity price ratio is likely to remain near the current level in spite of the fact that within the next 10 years United States consumers will spend an estimated 50 to 60 percent more for food than they are now spending. Growth in population alone will account for 22 percent of this increase. The rest will come from changes in food habits and higher per capita incomes. Young people in the teens and twenties will make up a larger share of the total population; they eat more food than others. The shift toward urban living is changing food standards in the direction of higher-quality foods.

Not all farm products will share equally in this expanded market. Consumers will want more livestock products and higher-quality products, and farmers will need to shift toward feed and forage crops to supply this market. More products will be processed, packaged, pre-cooked, and stored from season to season so that consumers will have a more constant year-round supply of nearly every product.

Some commodities will encounter a slow-growing market, others a shrinking demand. Per capita consumption of dairy products has dropped because of competition from lower-value vegetable fats and oils, but perhaps this process of substitution has now nearly run its course. Cotton has had, and probably will have, growing pressure from synthetic fibers and from increased foreign production. The domestic demand for wheat has been highly stable; but, because output is about double domestic requirements, wheat growers are dependent on export sales, which have been heavily subsidized.

Foreign Markets

The foreign export market is expanding, but its development will depend increasingly on trade and foreign policy. Hunger is the most crucial problem in the underdeveloped countries. Since these countries have about three-fourths of the world's population, hunger has truly become a world problem. The prospect that the world population will double in 40 years is therefore cause for alarm. Even in the past 15 years the increase in world farm output has not kept pace with the increase in population. If current population trends continue, there will be a widening of this "food gap" in the underdeveloped countries.

Many former exporting areas—Russia, China, South-east Asia, and Argentina—no longer have large amounts of food to export. Latin America, once the world's largest exporter of grain, no longer consistently produces a large surplus.

Europe has a fast growing industrial economy, and it is not likely that its agriculture will long keep pace with consumer demand. In spite of efforts to become more self-sufficient, the countries in the European Common Market will increase their demand for some food imports. The best bet is that Europe will shift toward importing more feed grains for livestock. Although dressed meat might be more economical in the long run, political forces will limit this type of import trade.

The United States and Canada are becoming the only major grain-exporting countries in the world. Just before World War II, these two countries were exporting about 5 million tons of grain a year, which was about one-fifth of the world grain trade. Now they are exporting close

to 40 million tons a year, an amount equal to about four-fifths of total international trade.

The growth of the world market for United States agricultural commodities depends on a growing dollar market in industrialized countries and potential demand among the less developed countries. In other words, it depends directly on the extent to which economic development takes place.

Shifts in Farm Production and Structure

United States agriculture has considerable growth potential. Most of this comes from products that are industrial in origin: machinery, electrical power, motor fuel, chemical fertilizer, insecticides, new feed ingredients, weedicides, and new materials for controlling disease. Most of these are reflected as cash production expenditures.

Between 1940 and 1960 cash production expenses multiplied three times (in constant dollars they almost doubled). The objects of these expenditures have replaced labor to such extent that since about 1940 the total inputs of agriculture have remained almost constant. In 1940 labor represented about 59 percent of the total inputs employed in farm production, land 9 percent, and capital 32 percent. In 1960, labor had decreased to 30 percent, capital had increased to 61 percent, and land was about the same proportion of the total. In the next decade labor will continue to decrease and operating capital inputs—fertilizer, lime, weedicides, insecticides, hybrid seeds, and other general items—will increase.

The number of farms, which has declined from more than 6.5 million in 1920 to about 3.3 million now, will drop to 2.5 million about 1975. Grain farms will continue to increase in size through farm consolidation and recombination of farm units. General grain-livestock farms also will increase, although the increase will not be so pronounced. Specialized livestock farms will expand, but because of confinement methods of producing livestock the land area will be a less significant indication of size of business than the capital structure and organization.

As farms increase in size and output, they will use more operating capital inputs rather than more labor. They will be more specialized and will need more specialist advice, more precise accounting procedures, and more efficient programming tools.

In the Midwest no rapid or substantial shift away from the present structure of farm businesses appears imminent. For the next decade or two, we can expect the typical farm unit to be organized around the labor and management resources of a single household, or in some instances around a two-family enterprise. There is,

of course, some potential for large corporate units, especially in livestock feeding. In crop production, increases in efficiency of the multiple-man unit over the one- or two-man unit are now limited, at least with current technology.

Mechanization of livestock and farmstead operations will become more general, inducing further specialization in livestock enterprises. This trend will apply particularly to cattle feeding, production of hogs in confinement, and large-scale poultry enterprises. Such changes are affected by the tenure and capital status of the individual farmer and by the ability of livestock farmers to finance expansion. The economies of scale of automation in livestock and poultry enterprises will force many small producers out of business unless they are willing to sell their labor at an extremely low price.

Demand prospects for livestock products will permit beef cattle, hogs, and poultry to expand at a faster rate than the total agricultural production. The over-all trend will be toward greater concentration of feed production in specialized areas and heavier marketings of livestock.

Changes in Marketing Practices

Important changes in market structure and organization are accompanying and sometimes preceding changes in farm organization. The grain industry in Illinois, for example, has a large amount of flat storage that is not suited to handling high-moisture corn. With growth of field-shelling operations, much greater capacity is needed for handling and drying corn and other feed grains. In the livestock business there will be more direct selling to packer and processor. During the past ten years, receipts of hogs at terminal markets have declined by one-third, cattle receipts by one-fourth, and sheep receipts by almost one-half. In the future there are likely to be no important terminal markets for poultry or eggs, milk, or other perishable farm products. Direct marketing will be encouraged by the growth of larger commercial operations in cattle and hog feeding.

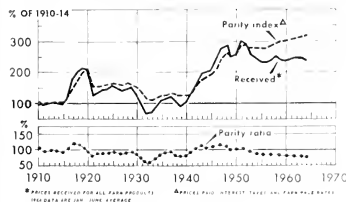
The number of egg marketing agencies also will continue to decline. The trend toward larger producing units will decrease the need for local egg assembly points. More eggs will move directly from farm through grading stations, and size of grading plants will increase. More plants will have contracts requiring producers to sell a given quantity of eggs in return for a guaranteed price based on central market price reports.

There will be a continued decline in the number of private and cooperative dairy-processing plants as more farms take advantage of economies of scale induced by modern mechanization and processing. Between 1950-51 and 1961-62, the number of fluid milk plants in Illinois decreased from 696 to 209, but this decrease was accompanied by an increase in number of plants processing more than ten million quarts annually. Further sharp declines in plant numbers are to be expected, particularly among small plants. Illinois will lose from 25 to 40 percent of its existing milk plants in the next five years.

In the handling of fresh fruits and vegetables, specification packing and sales will become more common, increasing the efficiency of direct-buying organizations. The volume handled by organized markets in the central states will continue to decline. The market structure for processed fruits and vegetables will not change, but a larger percentage will be sold through mass-market outlets.

The main significance of these trends is that agriculture will become increasingly specialized in the location of, as well as within and among, firms producing and

CHART 2. PRICES RECEIVED BY FARMERS, PARITY INDEX, AND PARITY RATIO



Source: U.S. Department of Agriculture.

marketing agricultural commodities. Crop yields will continue upward, and in crop production the family farm, enlarged and more highly capitalized, will largely maintain its current dominant position. Livestock feeding will involve a growing number of large-scale units. There will be some growth in vertical integration and in the coordination of production with service and marketing firms.

Growing Urban Influence

There was a time, not long ago, when farm people were in the majority in most communities outside incorporated towns and cities. This is no longer true. Not only are the strictly rural areas losing population rapidly, but the rural areas within easy driving range of cities are becoming increasingly dominated by people who earn their living in cities and who are primarily urban- or city-oriented in their thinking, habits, and interests. Furthermore, as the commuting range widens, the isolation of the farm community diminishes and farm people take on the habits, standards, and thinking of urban families.

Urban values are coming to dominate the farm community. We can see this change in the pressure for school consolidation, for more group-oriented recreation such as "little leagues," bowling facilities, public swimming pools, and golf courses, and for private sports facilities such as hunting or fishing preserves and camping facilities. For a few farm people this trend opens opportunities for new enterprises, but for most of them it means that they and their children must adjust to new ways of living and to different ways of doing things.

A major problem for farm people is widespread underemployment and failure of their children to achieve educational levels comparable with those of children in cities. The difference in early training places at a disadvantage those who do continue in higher education. It also means that those who do not attend regularly and the larger percentage who drop out before graduation are even further disadvantaged and less able than urban youth to fit into our increasingly highly skilled society. Most studies of farm manpower requirements show that a family farm economy will provide profitable employment for only a small percentage of the boys and girls growing up on farms. Usually it is suggested that only one or two in ten can be profitably employed in farming. We have not sufficiently emphasized the fact that investments in education have a high rate of return. The main value is in upgrading, improving, and expanding opportunities. Improvements in education and counseling are necessary for solving the problem of excess labor resources in agriculture. The trend toward urbanization of the farm community will hasten this change.

In summary, the significant social and economic trends in agriculture suggest that the farm cost-price squeeze will continue, even with continued growth of the national market and expanded exports due to government subsidy. Operating capital inputs will increase, continuing the trend of the past few years. Labor will flow out of agriculture, but not fast enough to bring farm incomes up to those of persons outside agriculture. Unless education in rural communities improves substantially, rural young people will not have the skills to compete equally in the urban labor market. The farm community will increasingly give way to urban influences. The political power of farmers will decline, but policy will be designed to make necessary adjustments easier, so that the real incomes of commercial family farm operators should continue to increase substantially with the continued growth of the economy.

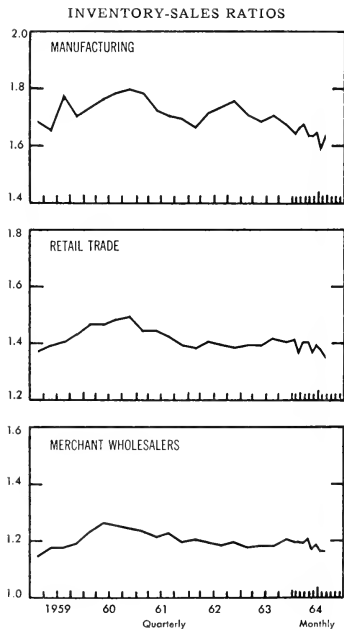
Recent Economic Changes

(Continued from page 5)

risen in the advanced stages of earlier upturns, but this time sales and output continue to gain faster than increases in stocks.

The decrease in the ratio is attributable mainly to manufacturing. The stock-sales ratio of trade firms has been fairly stable for the past three years. Most of the decline in manufacturing inventories relative to sales has been in materials and supplies. The lower ratio for materials shows up mostly in the durable goods group, primarily in metals and machinery. With rising demand for steel, inventories of iron and steel producers have been moving up fairly steadily since late 1963. Steel warehouses and manufacturing consumers also added a little to their inventories. Stocks of nondurable goods producers have changed little so far this year.

The rise in inventories at the retail and wholesale levels was halted at the middle of the year. In the first half, retailers' stocks had gained at a rate of almost \$1.5 billion and merchant wholesalers had been increasing their stocks at an annual rate of about \$1 billion. However, there was little increase at the wholesale level in the third quarter and a small decline in retailers' inventories because of reductions at durable goods outlets.



Source: U.S. Department of Commerce.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Steel

In 1963 steel ingot production totaled 109 million tons, 11 million tons over 1962. This was the first time since 1947 that production had passed the 100 million mark. United States production represented 26 percent of the world total of 422 million tons. For the fifth consecutive year the United States was a net importer of steel, as imports rose to 5.5 million tons from a 1962 total of 4.1 million tons, and exports were up 167,000 tons to 2.2 million.

The American Iron and Steel Institute reports that in recent years there have been important changes in the types of furnaces used in steel-making. Although open-hearth furnaces still produced 81 percent of steel in 1963, production by electric furnaces increased to 10 percent of all output and the use of the basic oxygen process rose to 8 percent of the total (50 percent more than in 1962). In the basic oxygen process a retractable water-cooled lance is lowered into the molten metal, and oxygen forced through the lance under extremely high pressure quickly burns off impurities.

The largest single user of steel is the auto industry, which consumed almost 17 million tons last year, 10 percent more than in 1962; its share represented 22.4 percent of total shipments. Construction and contractors' products took 12.5 million tons (16.5 percent) and machinery and equipment 7.7 million.

Coin Shortage

The shortage of small change today is acutely felt by most cash businesses. Vending machines, coin collecting (a booming hobby), and piggy bank owners are most often blamed for the shortage. Machines vending cig-

arettes, candy, food, and beverages had sales of roughly \$3 billion in 1963. The frequency with which the machines are emptied and the coins put back in circulation is of great importance. Phone booths and some vending machines, for instance, are emptied every two or three days in busy locations.

The value of coins in circulation as of June 30, 1964, amounted to \$2.7 billion (excluding \$500 million in silver dollars). In July of this year, the Treasury Department doubled the coin volume planned for 1964 and 1965. The original quota of John F. Kennedy half dollars will be more than doubled since many are being held as souvenirs and few are returned to circulation. Congress has approved the building of a new mint in Philadelphia and full-time operation of existing mints was approved.

All 12 Federal Reserve Banks now ration the coins paid out to member banks. As commercial banks have found themselves with fewer excess coins, the return flow to Reserve Banks has dwindled. Deliveries of new coins from the mint have risen, but not enough to offset the drying up of return flows of coins from circulation. Some banks and merchants at times have resorted to "green sales" (giving a dollar bill for 99 cents in change). The American Bankers Association is sponsoring television and radio spot announcements urging coin hoarders to mend their ways.

Median Professional Income

The National Industrial Conference Board has calculated 1959 median incomes of some types of professional workers, using data presented in the Census Bureau's report issued this year. The median incomes of professionals in medicine, law, higher education, engineering, and accounting are shown to vary with age and level of education.

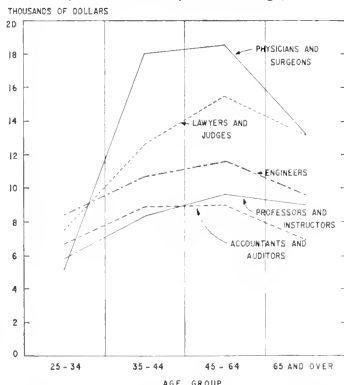
Doctors and lawyers with 5 or more years of education and in the 45-to-64 age group had the highest median incomes, \$18,500 and \$15,500 respectively. Engineers' highest median income was \$11,508. The median income of professors with 5 or more years of higher education (90 percent of all professors and instructors) peaked at \$9,567 and declined less than that of other groups after 65. (See chart.)

For all the occupations the peak earnings occurred in the 45-to-64 age group, but for doctors and accountants the difference in earnings between the 35-44 and 45-64 age groups was small. Doctors' median income rose quickly after their long training but also fell the most, by about \$5,300, for those over 65.

Income generally was higher for the most educated individuals. Approximately 85 percent of all accountants had 4 years or less of college. Those in the 35-to-44 age group with 1 to 3 years of higher education earned \$7,245 or about \$1,500 less than those with 5 or more years of college and \$700 less than those with 4 years. However, in the 45-to-64 age group there was a difference of less than \$100 between those with 4 years and those with 5 or more years of higher education.

Engineers aged 45 to 64 with 5 or more years of college had incomes of almost \$800 more a year than those with 4 years of higher education. There was a difference of \$2,500 between the incomes of engineers with 1 to 3 years of college and those with 5 years or more.

MEDIAN INCOME OF PROFESSIONAL WORKERS (With 5 or more years of college)



Sources: U.S. Census of Population, 1960, and National Industrial Conference Board.

LOCAL ILLINOIS DEVELOPMENTS

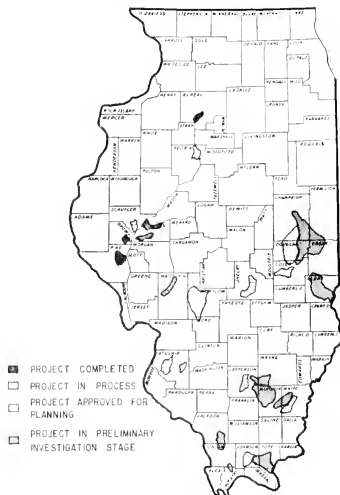
Watersheds Being Developed

Construction and planning of small watersheds reached a new high in Illinois in fiscal 1964. A progress report issued jointly by the conservation agencies of Illinois and the United States lists a total of 3 watershed projects completed, 5 under construction, 7 approved for planning, 11 in preliminary investigation, 15 awaiting preliminary investigation, 3 awaiting the governor's action, 7 not active, and 11 terminated. Watersheds in the first four classes are shown on the map below.

These watersheds are being developed in accordance with the Small Watershed Act (Public Law 566) passed in 1954. The major purpose of the act is to encourage the building of small watersheds to provide flood control, to prevent erosion and sediment damages, and to improve drainage in areas with recurring water problems. The act has been amended to include assistance to multi-purpose watersheds, which also serve as recreational facilities or as municipal and industrial water supplies. At least 50 percent of the land involved in each of these projects is designated for a conservation program.

The watersheds are sponsored by local groups who receive government assistance. The State Conservation Division helps with the original planning. Applications approved by the governor are forwarded to the United States Soil Conservation Service (SCS) for preliminary investigation. If the project appears beneficial and feasible, the SCS draws up more definite plans for the proposed structures, which the local sponsoring groups use

WATERSHED LOCATIONS



as a base for activating the project. The SCS provides continuing direction as construction progresses.

The largest project completed or currently under construction is the Shoal Creek Watershed, which covers 192,400 acres in Montgomery County. This watershed will include 5 floodwater-retarding structures, 2 multiple-purpose structures for municipal water supply, and 24 miles of channel improvement.

Wheat Program Expands

A total of 51,300 Illinois farms have been signed up for the 1964 Voluntary Wheat Program, according to the State Agricultural Stabilization and Conservation Service Committee. This number represents 39 percent of the 132,200 wheat farms in Illinois. In 1964, there were 24,200 farms enrolled, or 18 percent of the new total. (There are approximately 700 fewer wheat farms in the State now than at this time last year.) The 1965 allotments total 930,900 acres, of which 120,400 acres (12.9 percent) will be diverted to conservation rather than being used for wheat or other crops. Corresponding figures for 1964 were 553,700 acres allotted and 65,500 acres (11.8 percent) diverted.

Farmers who have signed up for minimum diversion (one-ninth of their allotted acreage) are eligible to receive price supports averaging \$1.32 a bushel in the State (\$1.25 is the national average). If an additional 10 percent of the allotment is diverted to conservation, the farmer also receives a diversion payment averaging \$22.44 per additional acre. The maximum additional diversion is 20 percent, except for farms of less than 15 acres, which may be entirely diverted. Total diversion payments in Illinois in 1964 amounted to \$638,400.

Welfare Payments Reported

Public assistance in Illinois amounted to slightly over \$140 million in the first six months of 1964. The number of persons receiving aid ranged from a high of 439,200 persons to a low of 420,600 persons, and the number of cases handled monthly varied from 185,900 to 181,200. The greatest reductions were due to a drop in unemployment, which affected the aid to dependent children and general assistance programs most heavily. Aid to dependent children still accounted for almost half of total payments, although assistance to the medically indigent aged was the program with the highest cost per person. The following tabulation is based on June expenditures.

	Percentage of total payments	Average assistance per person
Federally-aided programs		
Old age assistance	21.9%	\$ 88.03
Aid to dependent children	48.5	43.46
Blind assistance	1.0	90.21
Disability assistance	11.2	93.01
Assistance to the medically indigent aged	3.2	518.47
General assistance	14.2	48.49

The number of persons receiving public aid in June averaged 40 persons per 1,000 population, largely determined by Cook County's average of 53 persons per 1,000. Rates were lower than the state average in 74 counties and higher in only 28, with the extremes ranging from 3 recipients per 1,000 to 223 per 1,000.

Precise percentages vary monthly, but in June, the State contributed 51.3 percent of the total; the federal government, 45.5 percent; and local units, 3.2 percent.

Sources: Illinois Department of Agriculture and U.S. Department of Agriculture

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1964

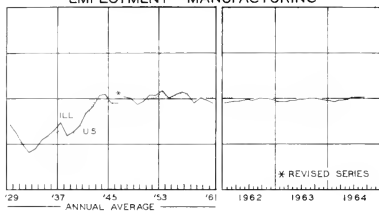
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
Percentage change from	Aug., 1964 Sept., 1963	\$38,428 ^a +24.4 -34.6	16,366 ^a -4.8 +8.5		-1 +11	\$28,725 ^a +13.4 +17.4	\$21,443 ^a +15.1 -1.0
NORTHERN ILLINOIS							
Chicago	Aug., 1964 Sept., 1963	\$25,000 +37.7 -48.4	1,148.9 -2.9 +8.1		-1 +12	\$26,839 +14.2 -8.0	\$18,293 +15.5 -2.2
Percentage change from							
Aurora	Aug., 1964 Sept., 1963	\$1,157 +10.4 -30.8	n.a.		n.a.	\$110 +3.8 +13.3	\$226 +4.6 +15.9
Percentage change from							
Elgin	Aug., 1964 Sept., 1963	\$403 +28.8 -31.1	n.a.		n.a.	\$67 +1.5 +19.6	\$253 +15.0 +15.5
Percentage change from							
Joliet	Aug., 1964 Sept., 1963	\$706 +21.7 +3.1	n.a.		-8 -3	\$98 -10.1 +2.1	\$138 0.0 +1.5
Percentage change from							
Kankakee	Aug., 1964 Sept., 1963	\$135 -25.8 -52.6	n.a.		n.a.	n.a.	\$81 0.0 -5.8
Percentage change from							
Rock Island-Moline	Aug., 1964 Sept., 1963	\$966 -25.1 +7.0	59.5 ^b -15.6 +25.5		n.a.	\$152 ^b +2.0 +10.1	\$247 +29.3 +14.4
Percentage change from							
Rockford	Aug., 1964 Sept., 1963	\$1,327 -21.8 -11.5	71.6 ^c -0.6 +11.4		n.a.	\$252 +1.2 +10.5	\$300 +7.9 -2.9
Percentage change from							
CENTRAL ILLINOIS							
Bloomington	Aug., 1964 Sept., 1963	\$137 -40.1 -54.8	15.1 -7.9 +3.4		n.a.	\$115 +7.5 +10.2	\$168 +20.3 -6.1
Percentage change from							
Champaign-Urbana	Aug., 1964 Sept., 1963	\$915 +34.0 +54.3	24.5 -10.3 +9.9		n.a.	\$119 +10.2 +12.3	\$192 +28.0 +12.0
Percentage change from							
Danville	Aug., 1964 Sept., 1963	\$2,038 +579.3 +652.0	23.2 -8.7 +10.0		-12 -3	\$60 -9.1 +7.1	\$102 +24.4 +18.6
Percentage change from							
Decatur	Aug., 1964 Sept., 1963	\$2,700 +231.3 +455.6	54.4 -2.7 +16.7		-5 ^c +8 ^c	\$166 +8.5 +15.3	\$156 -1.9 -11.9
Percentage change from							
Galesburg	Aug., 1964 Sept., 1963	\$92 -52.6 -34.3	14.1 -10.2 +8.5		n.a.	n.a.	\$62 +1.6 +14.8
Percentage change from							
Peoria	Aug., 1964 Sept., 1963	\$4 -99.7 -99.6	82.2 ^c -10.6 +10.0		-8 +2	\$317 +10.1 +5.0	\$448 +2.3 +5.4
Percentage change from							
Quincy	Aug., 1964 Sept., 1963	\$275 -29.7 -47.9	20.1 -4.3 +16.9		n.a.	\$64 +10.3 +4.9	\$88 -10.2 -9.3
Percentage change from							
Springfield	Aug., 1964 Sept., 1963	\$1,243 -58.0 +162.2	53.8 -15.0 +5.5		-3 ^c +3 ^c	\$180 +5.3 +11.1	\$458 +25.8 +12.3
Percentage change from							
SOUTHERN ILLINOIS							
East St. Louis	Aug., 1964 Sept., 1963	\$118 +7.3 -41.0	21.6 -5.7 -23.1		n.a.	\$132 3.6 -2.9	\$93 +10.7 +6.9
Percentage change from							
Alton	Aug., 1964 Sept., 1963	\$1,021 +661.9 +79.8	29.6 -8.4 +5.3		n.a.	\$54 +8.0 +5.9	\$60 +12.9 +27.7
Percentage change from							
Belleville	Aug., 1964 Sept., 1963	\$191 -21.2 -17.7	18.0 -15.9 +4.7		n.a.	n.a.	\$78 +21.9 +16.1
Percentage change from							

* Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending October 9, 1964, and October 11, 1963.

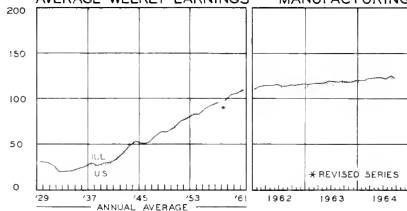
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

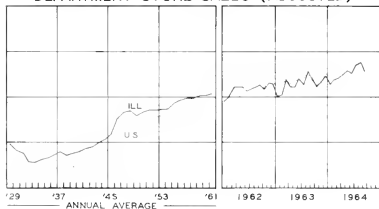
EMPLOYMENT - MANUFACTURING



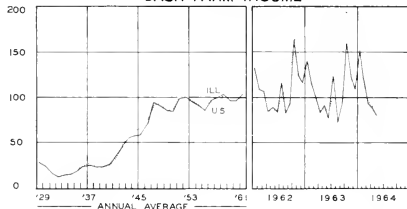
AVERAGE WEEKLY EARNINGS - MANUFACTURING



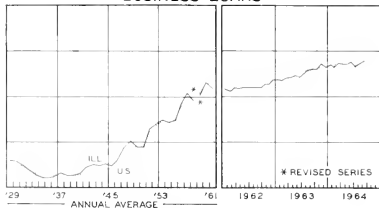
DEPARTMENT STORE SALES (ADJUSTED)



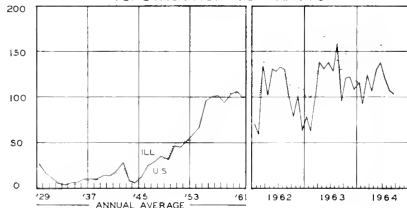
CASH FARM INCOME



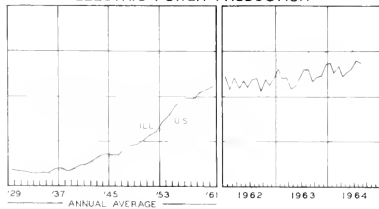
BUSINESS LOANS



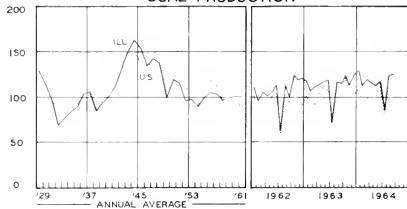
CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



COAL PRODUCTION



ILLINOIS BUSINESS REVIEW

CHICAGO HISTORICAL SURVEY

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME 21

DECEMBER, 1964

NUMBER 11

HIGHLIGHTS OF BUSINESS IN NOVEMBER

The settlement of the General Motors strike, which had been the primary factor in a 2-point decline in the October index of industrial production, helped to raise business activity to a new high in November. Automobile output jumped 65 percent to nearly 680,000 units. Steel production held around 83 percent of estimated capacity, promising a record output of about 125 million tons for the year. The index of industrial production rose 3 points to 134.9 percent of the 1957-59 average.

Construction Decline

Construction outlays in November were estimated at \$5.8 billion, down 5 percent from October, but up 1 percent from the year-earlier November. The decline from October was less than seasonal, in part owing to the unusually mild weather in the first half of November.

Private construction put in place in November was valued at \$4 billion, a decrease of 2 percent from October and about the same as in November, 1963. Spending on nonfarm housing construction continued to decline. At \$2.2 billion, it was 4 percent below October and 6 percent below the year-earlier figure. Public construction in November fell 12 percent to \$1.8 billion.

Unemployment Rate Down Slightly

Unusually warm weather in mid-November helped to push the seasonally adjusted rate of unemployment down from 5.2 percent in October to 5 percent in November. At mid-November there were 3.4 million unemployed, 121,000 more than a month earlier but the lowest number for mid-November since 1957. Employment was estimated at 70.8 million, down 330,000 from October. Nonfarm employment showed an increase of 251,000 instead of the usual decline of about 200,000 at this season of the year.

The jobless rate for adult men declined to 3.5 percent in November from 4 percent in October. The rate for married men dropped from 2.8 percent to 2.5 percent. However, the rate of unemployment for teen-agers, at 14.9 percent, and the rate for women, at 5 percent, failed to show any significant changes from October.

Upward Revision of Capital Outlays

The Commerce-SEC survey of plant and equipment expenditures anticipates a fourth-quarter, 1964, rate of

\$46.7 billion, which would raise the figure for the year to \$44.7 billion, 14 percent above the 1963 outlays. The initial 1964 estimate in February projected a 10 percent rise from 1963 to 1964, and each successive survey indicated a small upward revision in the 1964 total. Actual outlays in the third quarter were greater than anticipated in the August survey, mainly because of upward revisions in nonmanufacturing, while the higher estimates for the fourth quarter of this year were the result of higher anticipations by manufacturers.

The survey also indicates that businessmen anticipate larger plant and equipment expenditures in 1965 than the results of the McGraw-Hill survey reported here last month showed. Although the government survey covers only the first two quarters of next year, the seasonally adjusted annual rates for those two periods, \$47.9 billion and \$48.7 billion, are considerably higher than the \$46.8 billion estimate for 1965 given by the McGraw-Hill survey and average 8 percent above the full year 1964 as presently estimated.

International Repercussions

Britain's late-October moves to meet its balance-of-payments problem by imposing a temporary 15 percent surcharge on imports other than foodstuffs and basic raw materials and by providing tax incentives for exports were still eliciting unfavorable reaction from other countries when a major attack on sterling by foreign speculators forced further action by the beleaguered Labor government. The bank rate was raised from 5 percent to 7 percent and credits amounting to \$3 billion were hurriedly arranged with leading foreign central banks and international agencies to protect the pound. By the end of November it appeared that the speculative raid on sterling had been rebuffed. However, the threat to the pound was still present.

The increase in the London bank rate led the Federal Reserve to raise the discount rate from $3\frac{1}{2}$ percent to 4 percent. This step was intended, primarily at least, to discourage an outflow of short-term funds from the United States to London that would worsen the United States' balance-of-payments position. It was followed by increases in interest rates on loans by some banks, although a move toward higher prime rates was reversed after President Johnson urged banks to avoid general increases.

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

408 David Kinley Hall, Urbana, Illinois

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

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Price Policies and Profits

Since 1958, the index of wholesale prices has remained extraordinarily stable. This year's 100.5 percent of the 1957-59 average is at the mid-level of a seven-year plateau, and not one of the intervening annual averages deviated from this level by as much as 0.5 percent.

For over a year, many forecasters, especially those in the financial field, have expected prices to move up—that is, for “inflation to be resumed.” Industry executives in some lines of manufacturing have cited the need for higher prices to bolster earnings and have made attempts to raise them, but in many cases were unable to make the increases stick. Those becoming effective in some lines have been offset by decreases in others where competition has been more exacting. Both financial analysts and executives have shown a tendency to decry “the failure of profits to keep pace with the rise of gross national product” in the postwar period.

The government has been sympathetic but not entirely so. It has given industry a lift by tax concessions to make more funds available for investment, as indicated here last month, but has opposed price increases. The Administration has constantly reaffirmed its guidelines for collective bargaining, which were intended to limit increases in labor costs to a rate that would be offset by increases in productive efficiency. Implicit in this policy is the view that profits are high enough to preserve favorable incentives for investment.

Factors in Price Stability

Despite the income tax cuts enacted early in 1964 to speed economic growth, the increase in demand has not been sufficient to bring about the full utilization of resources, which alone would put upward pressure on prices. During the past year, nonagricultural employment has increased by almost 1.5 million, but the rate of unemployment has been little reduced and still stands at 5 percent of the labor force.

Underutilization of industrial capacity also persists. The McGraw-Hill survey reported that manufacturers were operating at 86 percent of capacity in September, only slightly up from 85 percent at the end of 1963. With new investment continuing high, the increase in 1965 will be of similarly small magnitude, leaving operations still well below the preferred rate of 92 percent. Where out-

put and efficiency can be lifted with relatively small investment outlays, as in the steel industry, there is a substantial restraint on prices even though volume progresses to new highs. The restraint does not apply, of course, to the special shapes and forms that are in comparatively short supply. Moreover, in the event of a strong build-up of steel inventories in the early months of 1965, prices of steel products could advance more generally, but such inventory boomlets are short lived.

In the course of an extended period when new capacity is being brought into operation, competition may intensify sharply. The new capacity has to claim a share of the market to make the investment pay, but each established producer strives to keep the market share which he held while the new capacity was being built. Unless demand is increasing across the board, downward pressure on prices is felt in areas where growth is inadequate.

The coming to maturity of new products also runs counter to inflationary influences. New products are commonly priced high, so that they are restricted to selected uses or to particular classes of buyers. Subsequently, as efficiency improves and output is stepped up for the mass market, prices are brought down and competition may even drive them temporarily below a level that is fully remunerative. Such changes have recently been illustrated by some plastics and transistors, for which capacity was expanded very rapidly. Where products have been standardized longer, as in the primary metals, price increases have been more common this year.

Still another factor in keeping prices low has been the rise of low-margin retailers, known as discount stores. Their growth has probably affected retail prices more than wholesale prices, but these retailers buy on a price basis and require as good a bargain as they can obtain from the manufacturers. This development, too, like the others already mentioned, has depended on the development of new capacity—in this case, the building of shopping centers and other distribution facilities.

Profit Expansion with Stable Prices

During short periods in which prices and costs are stable, profits tend to vary primarily with changes in volume of output. Their fluctuations are wider than those of output because they move, not in proportion to total volume, but in proportion to that part of volume above the “break-even point.” In the upswing from 1961 to 1964, total corporate profits before tax increased from \$44 billion to \$58 billion, or almost one-third, while gross national product increased only one-fifth. After 1961, record highs were being recorded annually in both series.

If one goes back further, to earlier cyclical peaks, the rise in profits makes a less favorable showing. From 1959 to 1964, the percentage increase for profits actually fell a little short of that for GNP. This is the basis of complaints about “the attrition of corporate earnings.”

Each short period, of course, is part of a longer run during which capacity may be expanded. Reflecting the larger base of operations and the higher level of fixed charges, the break-even point is then typically shifted toward higher volume, and the line measuring the relationship between output and profits shifts downward. Whether profits increase proportionately with volume depends upon the extent to which this downward shift offsets the upward movement along the new line of relationship. In a situation where the increase in demand is not adequate to

(Continued on page 8)

COMMERCIAL BANKING

Commercial banks play an indispensable role in the economy of the United States. Far beyond merely providing a safe place for storing savings, they accumulate funds for financing investments in everything from furniture to foundries. Performing this function throughout the country are over 13,000 banking establishments. These banks have total deposits of over \$200 billion and currently have loans and investments of nearly as much.

The banking industry in Illinois has grown tremendously in this century. At the start of 1964 all banks in the State had combined assets of \$23.7 billion, as compared with the pre-Depression high of \$5 billion. These assets consist principally of loans (\$11.1 billion at the start of 1964) and investments (\$8.9 billion). The remainder is primarily cash assets, which totaled \$3.3 billion last year. The banks' liabilities consist almost exclusively of the deposits of individuals, business organizations, and governments. At the start of this year Illinois banks had deposits of \$21.1 billion (\$12.0 billion in demand deposits and \$9.1 billion in time deposits).

There are over 1,000 commercial banks in Illinois today. They provide employment for over 45,000 people, and with average weekly earnings at about \$84, the combined yearly income payments to their employees amount to almost \$200 million. As might be expected, banking activity is centered in areas of high population and business concentration; three-quarters of the people employed in the banking industry in Illinois work in the Chicago metropolitan area.

Although the number of banks in the State is at its highest point since the mid-thirties, it is not at an all-time high. There were over 1,000 banks in the State by 1901 and the number increased fairly steadily each year up to 1923, when there were 1,921. By 1929 the number of banks in the State was down to 1,808, and by 1933 it had dropped to the Depression low of 851. The new forms of government regulation of banking brought on by the Depression resulted in a decline in bank failures and suspensions in Illinois from 245 in 1933 to two in 1934, and the number of suspensions has remained at a practically negligible level since then.

Regulation of Banking

Banks operate in Illinois under either federal or state charter. Through the twenties, about 25 percent of the banks operating in the State were national banks. Since then this percentage has been increasing and currently some 45 percent of the state's banks operate under federal charter. While less than half the banks in the State are national banks, the national banks have accounted for more than half of total deposits and total assets in the state's banking industry since the thirties and currently account for over two-thirds.

All national banks are required to be members of the Federal Reserve System (FRS) and are regulated by the Federal Reserve Board (FRB). The FRB also regulates state banks that elect to become members of the FRS. At the beginning of 1964, 523 of the state's 1,006 banks were

members of the FRS. Additional control is achieved through the Federal Deposit Insurance Corporation (FDIC) which insures deposits up to \$10,000 on each account in those banks which elect to participate in the insurance program. Almost all banks in Illinois are thus insured; \$21.119 million of the \$21,164 million on deposit at the end of 1963 were protected by the FDIC.

Operations of banks in the State are very much alike whether or not they are members of the FRS. One reason for this is the similarity between state and federal rules, and another reason is a willingness of federal authorities to go along with state rules where possible. For example, state banks in Illinois may not operate branches of any kind while in general, national banks are not so prohibited. However, federal authorities have not allowed branches to be established by national banks operating in states where branch banking is forbidden to state banks.

The issue is one that is hotly debated in Illinois. Bankers have made several attempts to persuade legislators to permit branches and the legislature remains firm in its opposition. Should branch banks ever become legal in Illinois it is likely that national banks would be allowed branches as well. The result of this flexibility in federal regulations is that state and national member and nonmember banks operate under the same rule.

Bank Operations

Like that of any other business, a bank's income is derived from the difference between its revenue and its expenses. The chief source of bank revenue is interest on loans (60 to 65 percent of the total).

Loan volume in Illinois has more than doubled since 1955, rising from less than \$5 billion to over \$11 billion. Of the total outstanding, about 45 percent are commercial, industrial, or agricultural loans. Real estate loans comprise about 15 percent of the total; loans for purchases and sales of securities, 9 percent; other loans to individuals, 16 percent; and all other loans, 15 percent.

The second greatest source of bank revenue is interest received on investments, which accounts for 20 to 25 percent of the total. Bank investments have increased over the past few years but not so much as loans. From 1955 to 1963 investments of Illinois banks rose from \$7.6 billion to \$8.9 billion. Government obligations accounted for 90 to 95 percent of the total, with United States government obligations amounting to 60 to 80 percent and state and local obligations comprising the remainder.

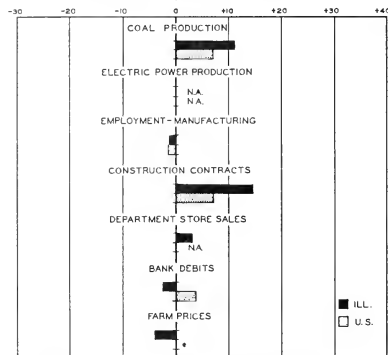
A bank's expenses are made up of salaries, interest payments on deposits, and various other operating costs. Total expenses have more than doubled since 1955, increasing 135 percent in eight years. A major factor in this rise has been the more than threefold increase in interest payments since 1955. Interest payments have risen from 20 percent of expenses in 1955 to 37 percent in 1963. During the same period, salaries decreased relative to the total from 47 percent to 34 percent. Although the result of the rapid increase in costs has been a slight pressure on profits, banks continue to prosper.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS*

Percentage changes, September, 1964, to October, 1964



* Not seasonally adjusted. N.A. Not available. * No change.

ILLINOIS BUSINESS INDEXES

Item	Oct. 1964 (1957-59 = 100)	Percentage change from Sept. 1964	Oct. 1963
Employment—manufacturing ¹	101.2	+ 1.6	+ 2.5
Weekly earnings—manufacturing ¹	124.0 ^a	+ 1.1	+ 4.0
Consumer prices in Chicago ²	106.4	+ 0.1	+ 0.4
Life insurance sales (ordinary) ³	149.3	+ 9.3	0.0
Dept. store sales in Chicago ⁴	133.0 ^b	+ 3.1	+15.7
Farm prices ⁵	93.0	+ 4.1	+ 2.1
Bank debits ⁶	168.4	+ 2.5	+ 3.1
Construction contracts ⁷	118.7	+14.7	+ 2.8
Electric power ⁸	n.a.		
Coal production ⁹	140.2	+11.3	+12.6
Petroleum production ¹⁰	90.6	+ 4.6	+ 7.7

¹ Ill. Dept. of Labor; ² U.S. Bur. of Labor Statistics; ³ Life Ins. Acy. Manag. Assn.; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ Ill. Crop Rpts.; ⁶ Fed. Res. Bd.; ⁷ F. W. Dodge Corp.; ⁸ Fed. Power Comm.; ⁹ Ill. Dept. of Mines; ¹⁰ Ill. Coal Survey.

* Preliminary. ^a Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Oct. 1964	Percentage change from Sept. 1964	Oct. 1963
Personal income ¹	498.6 ^a	+ 0.1	+ 5.5
Manufacturing ¹			
Sales ¹	440.4 ^a	+ 1.6	+ 4.3
Inventories ¹	61.6 ^{a, b}	+ 1.0	+ 3.9
New construction activity ¹			
Private residential	27.7	+ 4.3	+ 4.0
Private nonresidential	21.3	+ 1.5	+ 5.0
Total public	24.3	+ 1.0	+ 2.9
Foreign trade ¹			
Merchandise exports	25.3 ^c	+ 8.8	+17.2
Merchandise imports	18.7 ^c	+ 4.7	+11.7
Excess of exports	6.6 ^c	+22.3	+36.4
Consumer credit outstanding ²			
Total credit	73.9 ^b	+ 0.6	+10.2
Installment credit	57.8 ^b	+ 0.7	+10.7
Business loans ²	45.5 ^b	+ 1.0	+ 9.4
Cash farm income ³	44.9 ^c	+ 9.1	+ 2.6
Industrial production ²			
Combined index	132 ^a	+ 1.7	+ 4.4
Durable manufactures	130 ^a	+ 3.5	+ 3.5
Nondurable manufactures	134 ^a	+ 0.1	+ 5.1
Minerals	112 ^a	+ 1.1	+ 2.9
Manufacturing employment ⁴			
Production workers	102 ^a	+ 1.9	+ 1.0
Factory worker earnings ⁴			
Average hours worked	102	+ 0.2	0.0
Average hourly earnings	118	+ 1.2	+ 2.4
Average weekly earnings	121	+ 0.9	+ 2.4
Construction contracts ⁵	140	+ 7.1	+ 6.6
Department store sales ⁶	n.a.		
Consumer price index ⁷	108	+ 0.1	+ 1.2
Wholesale prices ⁸			
All commodities	101	+ 0.1	+ 0.3
Farm products	94	+ 2.0	+ 1.4
Foods	102	+ 0.5	+ 0.5
Other	102	+ 0.4	+ 0.6
Farm prices ⁹			
Received by farmers	98	0.0	+ 2.0
Paid by farmers	107	0.0	+ 0.9
Parity ratio	76 ^d	+ 1.3	+ 2.6

¹ U.S. Dept. of Commerce; ² Federal Reserve Board; ³ U.S. Dept. of Agriculture; ⁴ U.S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.; ⁶ Seasonally adjusted. ⁷ End of month. ⁸ Data for September, 1964, compared with August, 1964, and September, 1963. ⁹ Based on official indexes, 1910-14 = 100, n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1964					1963
	Nov. 28	Nov. 21	Nov. 14	Nov. 7	Oct. 31	Nov. 30
Production:						
Bituminous coal (daily avg.)	1,410	1,660	1,747	1,707	1,743	1,410
Electric power by utilities	18,640	19,133	18,558	18,408	18,411	16,976
Motor vehicles (Wards)	177	189	209	181	142	176
Petroleum (daily avg.)	7,660	7,741	7,684	7,722	7,716	7,558
Steel	140.2	141.4	140.2	141.4	141.9	107.4
Freight carloadings	513	608	627	628	657	467
Retail sales	5,130	5,228	4,996	4,948	5,039	4,765
Commodity prices, wholesale:						
All commodities	100.8	100.7	100.7	100.4	100.5	100.7 ^a
Other than farm products and foods	101.6	101.6	101.6	101.4	101.4	100.9 ^a
22 commodities	103.3	101.8	102.1	102.8	102.9	94.9
Finance:						
Business loans	40,548	40,651	40,295	40,192	39,882	37,254
Failures, industrial and commercial	185	271	197	277	249	190

Source: Survey of Current Business, Weekly Supplements.

* Monthly index for November, 1963.

RECENT ECONOMIC CHANGES

Retail Sales Down Slightly

Because of the automobile strike, October retail sales dropped 3 percent from the September level to an estimated \$21.5 billion. This was the second month of decline as sales were down about 1 percent from August to September.

The strike at General Motors caused a sharp slowdown in automotive dealer sales. Automobile sales in October rose only a fraction of a percent from September to approximately \$3.7 billion, whereas in 1963, October sales jumped almost 50 percent from the preceding month to \$4.4 billion. Because of the temporary slump in autos, durable goods sales fell 7 percent from the October, 1963, level. In most other lines there were moderate advances. Sales of nondurable goods were up 10 percent from 1963. Retail sales are expected to advance to record highs with the strike ended and the holiday season near.

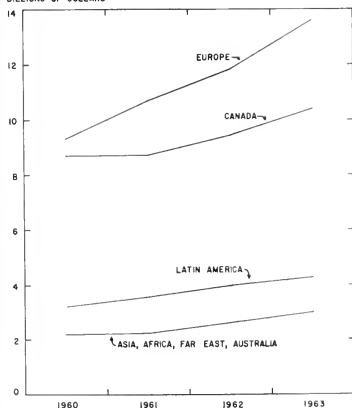
United States Manufactures Overseas

United States manufacturing plants in foreign countries had sales of \$31.3 billion in 1963, up 13 percent from the previous year. The increase from 1960 was 34 percent. In Europe, sales rose 46 percent from 1960 to 1963, reaching a total of \$13.6 billion (see chart). The leaders there were automobiles, chemicals, and electrical machinery. The largest absolute gains occurred in Germany and the United Kingdom.

Also above average were gains in sales from plants in Asia, Africa, the Far East, and Australia, which grew 36 percent from 1960 but totaled only \$3 billion in 1963. Sales of Latin American subsidiaries increased 34 percent over these years; but the 1962-63 gain was only 7 percent, indicating a slowdown. Canadian sales made a somewhat better showing, rising 8.5 percent to \$10.4 billion.

SALES OF MANUFACTURES BY AMERICAN DIRECT-INVESTMENT ENTERPRISES ABROAD

BILLIONS OF DOLLARS



Source: U.S. Department of Commerce.

About four-fifths of the sales of foreign affiliates were made in the countries in which the plants were located. Most of their export sales went to third countries abroad. Exports to the United States totaled \$1 billion last year, much the same as in other recent years.

Sales of transportation equipment in 1963 totaled \$8 billion, by far the largest amount for any products manufactured overseas. Sales of chemicals approached \$5 billion. Sales of machinery, including electrical equipment, totaled \$6.5 billion and food products \$3.7 billion.

Gross National Product Advances Steadily

The gross national product continued its upward movement to a new high in the third quarter. The seasonally adjusted annual rate of \$628.4 billion was 1.6 percent above the previous quarter. This year's third-quarter rate was \$41 billion or 7 percent above the third-quarter, 1963, figure.

GROSS NATIONAL PRODUCT OR EXPENDITURE (Seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1964	2nd Qtr. 1964	3rd Qtr. 1963
Gross national product.....	628.4	618.6	587.2
Personal consumption.....	404.6	396.1	377.4
Durable goods.....	58.7	57.0	52.2
Nondurable goods.....	179.5	175.3	168.6
Services.....	166.4	163.8	156.6
Domestic investment.....	87.3	87.2	82.8
New construction.....	48.9	48.9	47.2
Producers' durable equipment.....	35.6	34.6	31.4
Change in business inventories.....	2.8	3.7	4.2
Nonfarm inventories only.....	2.7	3.4	3.7
Net export of goods and services.....	7.0	5.7	4.2
Government purchases.....	129.5	129.6	122.8

Source: U.S. Department of Commerce.

Gains occurred in nearly all major components. Consumer purchases of goods and services rose about \$8 billion. Automobile demand was one of the strongest areas. Expenditures for producers' durable equipment gained by \$1 billion. Inventory accumulation slowed to \$2.8 billion from the second-quarter rate of \$3.7 billion.

Drought

Industries, towns, and farmers in the United States have been hard pressed by the lack of rain this year and, in some areas, by the low rainfall of the past three years. Reservoirs and lakes in the northeastern states have dropped to extremely low water levels, with resulting increases in pumping costs.

The water level in four of the five Great Lakes has dropped two to twelve inches so that ships have been forced to reduce their loads. This has increased the number of trips needed to transport goods, thereby raising shipping costs.

Farmers as far west as the Rockies are facing severe water shortages. The United States Department of Agriculture has estimated that corn production dropped sharply from last year's 4.1 billion bushels to 3.5 billion bushels this year. At the beginning of August the country's soybean crop was estimated at 784 million bushels for the year, but because of dry weather that figure was cut in November to about 700 million bushels. In over one-half of the states the Agriculture Department is offering drought aid through which farmers may obtain surplus livestock feeds and emergency loans.

THE PROBLEM OF POVERTY

PAUL WELLS, Associate Professor of Economics

In the midst of this country's Great Depression, President Roosevelt saw "one-third of a nation ill-housed, ill-clad, [and] ill-nourished." Since those almost forgotten days of widespread idleness and distress, this nation has gone on to realize three decades of highly advantageous economic progress.

Today more people are at work than ever before, earning higher incomes and enjoying higher standards of living than ever before. In the past 30 years the level of employment has almost doubled, while unemployment, the chief cause of poverty among the industrially advanced nations of the world, has fallen from a record high of 13 million persons, or one-fourth of the labor force, to 3.8 million persons, or one-twentieth of the labor force. Gross national product has risen from a Depression low of \$150 billion (in 1963 prices) to \$623 billion, and the nation's per capita disposable income has more than doubled, rising from a low of \$900 in 1933 (in 1963 prices) to well over \$2,000 in 1964.

By all measures, then, the nation is prospering today as it never has before, and for this reason alone we might expect our economy to do today what it failed so miserably to do in the decade of the 1930's: To provide jobs for all those who seek work; to make rates of pay adequate to cover family needs for food, shelter, and clothing; and to furnish suitable educational opportunities for those who wish to work in this way to improve their lot.

The Persistence of Poverty

It comes as a shocking surprise, therefore, to learn that fully 9.3 million of this nation's 47 million families still live in poverty. These millions of unfortunate families earn or receive an annual pre-tax income of less than \$3,000, which is not enough at current prices to furnish the 30 million persons in those families with the necessities they must have in order to lead a tolerable life.

Many of the nation's impoverished are over 65 years of age and so have benefited very little, if at all, from the economic progress of the recent past. Because of their age they have little to look forward to and their only hope lies with the generosity of the various public assistance programs operated by the federal, state, and local governments.

Worse still, however, is the unhappy fact that, of this country's poor, 11 million are children. One-sixth of our youth live in serious want, and because they do they have a good chance of living out a life of hopeless idleness, giving little to society and receiving in return only what the public dole allows them to have. For these 11 million youths, the escape from poverty will not be easy, and many of them will not make it by their efforts alone.

An important and largely unrecognized fact about poverty is that although the poor have always been with us, they certainly need not always be with us in such abundant numbers. The 1964 *Annual Report of the President's Council of Economic Advisers* estimates that transfer payments of \$11 billion a year would suffice to bring all low-income families up to the \$3,000 minimum income level. If the public were agreeable, it would be a simple matter for our governments to raise taxes by this amount and distribute the proceeds among the poor.

Certainly this country has the economic capacity to alleviate hardship if it so wishes, for the \$11 billion sum required amounts to less than 2 percent of GNP. But a

program of massive doles would, at the very best, only alleviate poverty; it would not cure poverty. Large-scale grants to the poor would leave untouched the sources and causes of low incomes in this nation. The poor must have higher incomes if their indigence is to be relieved, but they must be able to earn the higher incomes they need—to contribute to the nation's output as well as share in the nation's output—if their indigence is to be eliminated.

Characteristics of the Poor

To take action against the sources and causes of poverty society must know who the poor are, their occupations and employment records, their race, the amount of education they have had, the skills they possess, and where they live. Much of this needed information has been all too embarrassingly visible to society for too long a time. The knowledge to deal effectively, though not perfectly, with poverty is at hand. The resources are also available, and now that a favorable public consensus seems to be forming perhaps the "unconditional war on poverty" which President Johnson so grandly called for in his State of the Union Message can soon begin.

A cursory inspection of the data on low-income families shows that the most distinctive, though hardly surprising, characteristic of the poor is the large amount of unemployment their family heads suffer. Almost one-third of all low-income families are headed by an unemployed person. Although some of these family heads are women with young children to care for, the conclusion that clearly emerges is that unemployment, plain and simple, is responsible for a good deal of this country's poverty.

Of this country's poor, 22 percent are nonwhite. This high percentage means that nearly one-half of our non-white population lives in poverty. Discrimination, then, is a contributing cause of the indigence of one-fifth of our families, and is the reason why an inordinate amount of poverty is centered on this minority group.

A further noteworthy trait of the poor is that they have had very little education. The heads of over 60 percent of low-income families have had no more than a grade-school education, and this crippling lack largely disqualifies them from holding all but the lowest-paying jobs.

Finally, it has been found that about one-half of the poor live on farms or in rural nonfarm residences. Few new and better-paying jobs are opening up for these people in the areas in which they live, and many of them lack the resources and information needed to enable them to move to other, often distant, parts of the country where better jobs might be available.

Unemployment, discrimination, the lack of education and marketable skills of the poor, and the inability or unwillingness of low-income families to move from one part of the country to another, or from one occupation to another, are the chief causes of poverty in this nation. If the poor are to work their way out of privation, action must be taken against these root causes of poverty.

Full Employment Essential

No anti-poverty program can well succeed unless the economy enjoys full employment. This is because the poor need jobs if they are to work and to earn decent incomes, and for the poor to find jobs, full employment must obtain. It would be no solution at all if the unemployed were to find jobs at the expense of those who are

already working. This would simply shift the incidence of poverty from previously unemployed persons to newly unemployed persons. The number of jobs available must be increased if the total of society's earned income is to rise and the number of society's low-income families is to fall.

To increase permanently the level of employment throughout the economy, the total spending of consumers for the satisfaction of family wants, of business firms for newly produced capital equipment, and of the federal, state, and local governments for collectively consumed goods and services must keep on increasing. Business firms respond to increasing demand by producing a greater volume of output, and to produce more they need to hire more labor. As the level of employment and output rises, so also will the flow of incomes to families, of profits to business, and of tax revenues to governments. The expansion itself thus provides most of the financial means needed to maintain the volume of spending at its higher level.

The federal government has recently effected several tax-reducing measures which were specifically designed to increase private demand throughout the economy. The depreciation guidelines and the investment allowances of 1962 have had the effect of increasing the after-tax incomes of business. The 1964 federal tax reduction increased the after-tax incomes of both individuals and corporations. With the aid of these policies, spending has increased over the past two years, bringing with it a \$40 billion increase in GNP, a 3 million increase in employment, and about a one-half million reduction in unemployment. Whether full employment will be reached in the near future, though, is still an open question. If full employment is not realized, then further tax cuts or higher federal expenditures will be needed.

A level of spending that suffices to bring the economy to full employment will not, however, be sufficient to maintain the economy at full employment. Because business firms are continually purchasing more and technologically improved capital equipment, and because the productivity of the labor force is increasing as its level of education, skills, and health improve, the economy is able to produce given levels of output using less and less labor. Furthermore, a constant level of spending will not create the millions of new jobs that are needed to employ the increasing numbers of young people who come out of our schools and onto the labor market each year. Consequently, in order for the economy to operate continuously at or near full employment and so prevent the poverty-generating force of unemployment from operating, total spending must rise year after year.

Making Workers More Productive

Another attack on the problem is to make it possible for the poor to earn incomes adequate to support a decent standard of living. Their earnings are low because their productivity is low. They lack the education, skills, and job training needed to acquire and hold higher-paying jobs. A sufficiently high level of spending will make jobs available to all who wish to work, but it will not necessarily make higher-paying jobs available to all who need them. If the heads of low-income families are to earn the incomes they need, they must acquire new skills, more training, and experience so that they can fill jobs with greater responsibility and greater pay.

At present society is notably lacking in the facilities needed to upgrade unskilled workers and to restrain those workers made redundant by the advance of technology.

Except for a few years during World War II this nation seems to have been largely unable to teach its unemployed coal miners, indigent sharecroppers, and disadvantaged Negroes how to lay bricks, do sheetmetal work, wire a house or a computer, sell hardware, operate machinery, or any of a thousand other skills needed by our advancing economy.

The Equal Opportunities Act of 1964 is a modest first step by society to improve the employment fortunes of the unskilled and the inadequately educated. Congress has allocated \$800 million to implement this act, and soon an initial \$35 million will be spent to (a) establish Job Corps conservation camps where impoverished and illiterate youths will be elevated to employable status, (b) make grants to local communities so that they can wage their own attacks on poverty, (c) establish Neighborhood Youth Corps projects to provide jobs and training opportunities for young men and women, and (d) establish four-week-long experience programs to train unemployed parents.

Living Up to Democratic Ideals

It is especially important for society to provide better educational opportunities and more vocational training for the 11 million children of the poor. The value of education and training to these youths can hardly be emphasized enough, for they afford about the only effective means by which the young can work their way out of poverty. Unfortunately, our impoverished youth are not now receiving the kind of help they need to become productive members of society. It is an unhappy fact of life in present-day America that the children of the poor, who need education the most, receive only the poorest of educations.

Part of the reason for this is that these youths often live in financially stricken school districts and attend schools that are antiquated and crowded, study under teachers who are overworked and sometimes insufficiently trained, and are offered curricula which are out of date and fail to meet both their needs and the needs of society. When this situation is coupled with a home life that allows little emphasis to be placed on the value of an education, large numbers of these youths drop out of school and so come of age ill-equipped to earn the living they need. The American goal of equal educational opportunities for all is not being realized and probably will not be realized until the many local communities which are too poor to provide first-rate schooling for their citizens receive financial aid from the federal and state governments and curriculum guidance from our universities, trade unions, and businesses.

Even though an expanding level of employment and improved educational opportunities will do much to raise the incomes of this nation's 9.3 million indigent families, it is doubtful that the problem of poverty can satisfactorily be solved unless a special effort is made to reduce discrimination. Because of racial prejudice, members of the nonwhite minority in this country labor at the most menial jobs and earn the lowest incomes, suffer heavy unemployment, live in substandard housing, are inadequately educated, and have little opportunity to improve their position in life. Discrimination not only wastes the lives of this one-ninth of our population, but it also robs the nation of their considerable talents and the contributions they could make to the well-being of our society.

The fight to decrease the poverty of the nonwhite population is one of the most critical social issues of the day. Society must remove the barriers that have been

erected and now prevent this minority from functioning to the fullest of their abilities. The Civil Rights Act will help; so also will a more general recognition of the simple fact that it is man's ability and performance which are important, not his color.

Conclusion

Unemployment, discrimination, a slowly expanding economy, inadequately educated young people, and a lack of retraining facilities for adults are the main causes of poverty in this nation. These separate causes of poverty jointly reinforce one another and together they operate to form a single complex of forces which holds one-fifth of our families in want and severely limits the opportunities of millions of Americans. Because these causes coalesce in mutual support of each other, a comprehensive, well-coordinated, and continuing attack by society on the whole structure of poverty is needed, and would likely prove more effective than any number of separate programs, each directed toward a single cause alone.

The recent Presidential election offered the voter a choice—a choice between an administration which would take steps to solve the problem of poverty or an administration which would passively allow the market forces of supply and demand either to reduce or increase poverty as the future would have it. The choice has been made, and the present administration has a mandate from the electorate to get on with the serious business of constructing and putting into action an effective, efficient anti-poverty program.

Price Policy and Profits

(Continued from page 2)

absorb the output of the expanded facilities, profits may not rise at all, or may even fall.

During the postwar period, with prices and costs at record highs, industry has installed or reconstructed almost its entire plant and equipment, and depreciation charges have moved up correspondingly. Fixed charges in other forms, such as indirect business taxes, have also spurred. The total of these fixed or prior charges against sales has in fact risen a little faster than GNP.

Profits, depreciation, and indirect business taxes are all correlated with sales volume and with the stock of tangible productive facilities in use. In all cases the correlation with sales is positive, but in the case of profits the correlation with the capital stock is negative. In a period of rapid growth, therefore, the expansion of capital stock and the associated rise in fixed charges puts a drag on the increase in profits.

For the aggregate of profits, depreciation, and indirect taxes, the correlation with volume as measured by GNP takes the form of a constant percentage of the total. This constancy holds, with minor deviations, all the way back to 1929, as far as comparable data are available. What it implies is that the pricing practices of industry have consistently resulted in the addition of a fixed percentage markup on outlay costs to obtain the prices at which output is sold.

Within the aggregate markup, profits had been claiming the full share specified by the relationships until the new guidelines were instituted in 1962. At that time, capital consumption allowances increased by several billion

dollars and reported profits before taxes dropped by the same amount. But since this shift increased the total corporate take by way of the reduction in corporate income taxes, it is essentially a distortion of the facts to say that profits did not benefit fully in the upswing.

The Sensitivity of Profits

There is no reason to think that pricing policy has changed in the last few years from the pattern that has prevailed for a generation. All that stability indicates is that, on the average, outlay costs per unit of output have also been stable. Several studies bearing on this point have revealed a downward drift in labor costs per unit in the last few years, as increases in productivity have more than offset higher wage rates.

In the past, stress has been laid on the inflexibility of costs, particularly wage costs, but the established pricing methods imply a corresponding insensitivity of prices to fluctuations in business. Hence, on the upswing business may be complimented on its maturity, on restraint and self-discipline in not taking all it can get, or on helping to prevent inflation; and on the downswing it may be criticized for holding prices at levels that aggravate the decline in volume produced and the increase in unemployment.

Stability in pricing policy eliminates some of the uncertainties of completely competitive market forces but cannot eliminate all. When total receipts decline, something has to give, and present practice dictates that it has to be profits. Profits are particularly sensitive in recessions because they are squeezed between declining total revenues and rising fixed charges. Investment outlays lag at the turning points. After the peak, they are held high for a while by commitments made earlier, and during this period the overhead charges against the accumulating capital stock continue to rise. Similarly, property taxes continue to rise, and certain other indirect taxes may even be increased after the turn. Declines in profits under these conditions tend to be severe even in minor setbacks.

Business evidently fears the uncertainty of uninhibited price competition more than the instability of profits. It seeks the same "contractual security" which is said to exist for wages in the negotiated labor contracts, by attempting to make sure that the wage increases not offset by productivity increases are fully incorporated in the prices charged.

It is said that modern industry is forced into this kind of policy by high capital requirements and unavoidably heavy fixed charges. The intensification of capital use for industrial efficiency is clearly a factor in economic progress, but that fact in itself does not establish any specific profit margin as appropriate. The margins actually prevailing have facilitated the financing of expansion; on the whole, they have produced internal sources of funds for about three-fourths of all business needs through the postwar period. They have not eliminated the instability of profits, which will again become apparent whenever a decline is experienced.

In summary it may be concluded that the forces keeping prices stable are potent and will continue to operate in 1965 and that the sensitivity of profits will aggravate the instability of the economy as a whole. On declines, the drying up of profits will join with idle capacity in depressing new investment. The burden of responsibility for sustaining prosperity is thus increased. The government cannot relax its efforts but must ever stand by with measures to sustain steady growth.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Private Pension Plans

Private pension plans are a comparatively young institution. Salaried workers and executives were the first groups to be covered. About 30 percent of the present plans were established between 1940 and 1949, spurred on by favorable tax laws and wartime wage stabilization measures. During that time plans for blue-collar workers became more prevalent. Since 1949 growth has continued because of union pressure and the recognition by many firms of their social obligation to provide pensions, which are beginning to be an important form of employee compensation and a more significant influence on the labor market.

The United States Department of Labor has been studying pensions since 1960, when reports of 16,000 plans covering over 15.5 million active workers and 1.2 million retired workers were filed with the department. Programs covering fewer than 26 workers were not included in the study. Over half the workers involved were covered by plans which included 5,000 or more workers. However, 90 percent covered fewer than 1,000 employees each.

Since 1958, over one-half of new plans negotiated have included vesting provisions, which guarantee an equity to the worker even if he terminates his employment with the firm before retirement. Through vesting, a worker can build up retirement benefits from more than one employer. The traditional purpose of a retirement program was to attract and keep workers on the job until retirement. Vesting contradicts this, but with increasing mobility it has become desirable to a prospective worker. The contradiction has been resolved mainly by restricting vesting to workers who have attained a specified age or

number of years of employment. A minimum service requirement of 15 years was required by 32 percent of the plans studied. (See chart.)

Plans for salaried workers were more likely to provide for vesting than those for production workers. About 80 percent of the white-collar workers in the plans studied had vesting protection, whereas less than 50 percent of the production workers had such protection.

Mobility and Employment

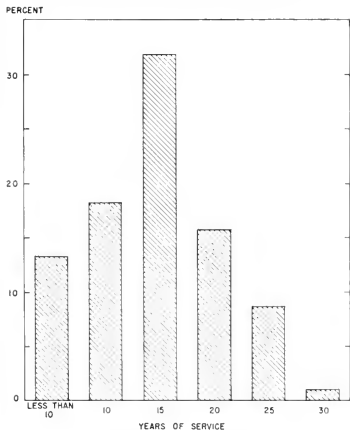
A study by the Bureau of Labor Statistics, based on a national sample of men aged 18 to 64 in 1962 and 1963, has provided new information on migration patterns. In general, age was found to be a strong determinant of migration. Those under 45 had a greater propensity to move and to make moves of longer distances. Among older workers, job seniority rights, fear of prolonged unemployment, and family and community ties tended to reduce movement.

The migration rate for heads of families was one-third lower than that of single men, indicating that marriage tended to make a man less willing to move. However, the migration rate was the same whether or not there were children under 18 in the family.

Professional and technical workers represented 19 percent of the migrants but only 12 percent of all employed men. Because of their skills and higher education these workers were more likely to be moved by their employers or to be aware of job opportunities elsewhere.

Some 11 percent of those unemployed in the spring of 1962 had moved to a different county by the spring of 1963 compared with only 6 percent of the total employed. The unemployed who moved found jobs more readily than those who did not. About three-fourths of the jobless men who migrated were employed a year later. Slightly over half of those who did not move had jobs a year later.

MINIMUM SERVICE REQUIREMENTS
OF PRIVATE PENSION PLANS



Source: U.S. Department of Labor.

Americans Residing Abroad

About 762,000 American civilians were living outside of the United States when the 1960 census was taken. There were also 610,000 members of the armed forces stationed overseas. Approximately 463,000 of the civilians were dependents of members of the armed forces. Federal employees and their dependents numbered 76,000. The "other" group, which included businessmen, contract workers, missionaries, students, and teachers, totaled 191,000.

Recently the first separate census report on civilians living outside of the United States was released. Almost one-half the civilians abroad were under 15 years of age; most of these were children of servicemen. The median age of overseas Americans was 17.4 years compared with 29.5 years for the United States population.

The overseas population had more education and those employed generally had jobs higher on the occupational scale than the resident United States population. Over one-third of the overseas civilians were employed in a professional or technical capacity, whereas only one-tenth of the resident United States population was in this group. Americans abroad who were over 25 had a median of 12.6 years of schooling, compared with 10.6 years for this age group in the United States.

LOCAL ILLINOIS DEVELOPMENTS

Electricity Usage Rises

Sales of electricity to ultimate consumers in Illinois totaled \$791 million in 1963, a 4.5 percent gain over 1962 sales. Behind this are some partially offsetting changes. Total kilowatt hours, 44.7 billion in 1963, increased 6.1 percent over the previous year, while the average number of customers rose only 1.6 percent. On the other hand, average revenue decreased by 3 cents per 100 kilowatt hours over the same period. Among the six classes of service, residential and rural sales contributed the largest percentage to total revenue in 1963 (36.5 percent), but manufacturing and industrial establishments consumed a greater portion of kilowatt hours than any other class (33.6 percent). The difference is accounted for by the lower bulk rate available to large industrial consumers.

More detailed information is available in the Illinois Commerce Commission's recently issued bulletin, *Illinois Electric Utilities—A Comparative Study of Electric Statistics, Calendar Years of 1962 and 1963*, which is based on data from annual reports the commission receives from the thirteen companies furnishing electric service in Illinois.

Oil Production Substantial

Illinois produced 2.8 percent of the nation's crude oil in 1963. This amounted to 74.8 million barrels and sold for \$221.8 million, giving Illinois the rank of eighth in the nation.

Nine pools accounted for 70 percent of the state's production, with five counties (Fayette, Marion, White, Lawrence, and Wayne) contributing 60 percent of the total. The yield in 1963 was down 6 percent from the previous year and well below the 1955-62 annual average of 80 million barrels. However, some recovery has been experienced this year, as the figure for the first 10 months of 1964 was 5 percent higher than that for the corresponding period of 1963.

Peak production totaled 148 million barrels in 1940, while the lowest in recent years was 59 million barrels in 1953. An estimated 2.5 billion barrels have been produced in Illinois since the opening of the Litchfield pool in Montgomery County in 1889.

Last year, 1,878 new tests for oil and gas were made in 65 Illinois counties. Of these drillings, 898 became oil wells, 32 were gas wells, and 948 were dry holes.

Sales Taxes Collected

The Illinois Department of Revenue has reported the collection of sales taxes amounting to \$564.8 million for the fiscal year ending in June, 1964. Taxes included in this total are retailers' occupation tax, service occupation tax, use tax, and service use tax.

The 1964 collections were 8.1 percent greater than the 1963 collections, although the number of returns (153,800) increased only 4.8 percent over the previous year.

The table below, showing the percentage distribution of the 1964 tax returns and receipts by type of business and by location, indicates that the average receipts per return were considerably higher in Cook County than downstate, reflecting a higher average volume of business. (The average for all classifications was \$4,895 in Cook County and \$2,880 downstate.)

Business classification	Percent of returns		Percent of receipts	
	Cook	Down-state	Cook	Down-state
General merchandise	2.4	5.7	7.3	5.2
Food	5.4	6.8	9.9	9.6
Eating and drinking places	7.2	7.2	4.9	3.4
Apparel	2.3	1.9	2.9	1.7
Home furnishings	1.9	3.1	1.9	1.6
Building materials	2.5	5.7	3.6	5.2
Automotive	5.0	12.8	9.2	10.6
All other stores	5.9	8.1	5.8	4.3
Miscellaneous services	3.0	4.8	1.6	1.5
Manufacturing (direct sales)	3.7	4.6	5.2	4.6
Total	39.3	60.7	52.3	47.7

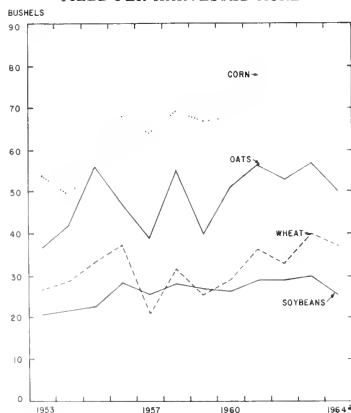
Taxes reported but not counted in the figures above included \$71.1 million collected for municipalities and \$4.7 million collected for counties.

Crop Productivity Falls

Adverse weather conditions in 1964 interrupted the long-run rise in crop productivity on Illinois farms. The state's four major crops — corn, oats, wheat, and soybeans — all experienced a decline in bushels per harvested acre, according to preliminary estimates issued by the Illinois and United States Departments of Agriculture. (The accompanying chart shows the annual averages since 1953.) However, the productivity estimates for Illinois are still considerably above the corresponding estimates for the United States as a whole, ranging from 10 percent more bushels per acre for soybeans to 36 percent more bushels per acre for wheat.

Along with the long-term rising productivity per acre, the average value of farm real estate is increasing. Value per acre in Illinois increased from \$316 in 1960 to \$348 in 1964, bringing the total for Illinois to about \$10.4 billion, which is the third highest in the nation. California leads with a valuation of \$16.8 billion, followed by Texas with \$15.4 billion.

YIELD PER HARVESTED ACRE



* Preliminary estimates as of November 1, 1964.
Sources: U.S. and Illinois Departments of Agriculture.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1964

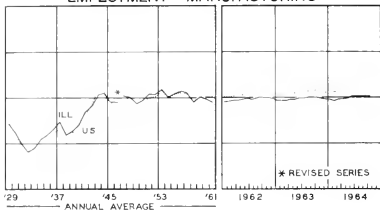
		Building Permits ¹ (000)	Electric Power Con- sumption ² (000,000 kw/h)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS.		\$34,797^a	1,600 5^a			\$28,006^a	\$21,470^a
Percentage change from.....	Sept., 1964.....	-11.4	-2.5		+13	-2.5	+0.1
	Oct., 1963.....	-44.1	+11.5		+15	+3.1	+1.4
NORTHERN ILLINOIS							
Chicago		\$17,670	1,072 3			\$25,952	\$18,294
Percentage change from.....	Sept., 1964.....	-20.3	-6.7		+14	-3.3	0.0
	Oct., 1963.....	-63.2	+5.4		+15	+2.9	0.0
Aurora		\$ 640	n.a.			\$ 112	\$ 232
Percentage change from.....	Sept., 1964.....	-44.7			n.a.	+1.8	+2.7
	Oct., 1963.....	-60.9				+8.7	+6.9
Elgin		\$ 663	n.a.			\$ 72	\$ 311
Percentage change from.....	Sept., 1964.....	+64.5			n.a.	+7.5	+22.9
	Oct., 1963.....	-13.8				+16.1	+50.2
Joliet		\$ 1,156	n.a.			\$ 124	\$ 144
Percentage change from.....	Sept., 1964.....	+63.7			+3	+26.5	+4.3
	Oct., 1963.....	+8.7			+5	+12.7	+5.9
Kankakee		\$ 363	n.a.			n.a.	\$ 83
Percentage change from.....	Sept., 1964.....	+168.9			n.a.		+2.5
	Oct., 1963.....	-57.8					+6.4
Rock Island-Moline		\$ 1,891	131 2^b			\$ 171	\$ 185
Percentage change from.....	Sept., 1964.....	+95.8	+120.5		n.a.	+12.5	-25.1
	Oct., 1963.....	+28.4	+185.2			+13.2	-4.6
Rockford		\$ 2,152	69.0			\$ 255	\$ 315
Percentage change from.....	Sept., 1964.....	+62.2	-3.6		n.a.	+1.2	+5.0
	Oct., 1963.....	-7.3	+6.8			+8.1	+5.4
CENTRAL ILLINOIS							
Bloomington		\$ 1,312	14 1			\$ 109	\$ 178
Percentage change from.....	Sept., 1964.....	+857.7	-6.6		n.a.	-5.2	+6.0
	Oct., 1963.....	+291.6	0.0			-3.5	+4.1
Champaign-Urbana		\$ 824	23 6			\$ 139	\$ 200
Percentage change from.....	Sept., 1964.....	-9.9	-3.7		n.a.	+16.8	+4.2
	Oct., 1963.....	+12.7	+11.3			+1.5	+5.3
Danville		\$ 265	22.5			\$ 81	\$ 115
Percentage change from.....	Sept., 1964.....	-87.0	-3.0		+10	+35.0	+12.7
	Oct., 1963.....	-48.9	+10.8		+2	+19.1	+29.2
Decatur		\$ 897	50 5			\$ 210	\$ 171
Percentage change from.....	Sept., 1964.....	-66.8	-7.2		+7 ^c	+26.5	+9.6
	Oct., 1963.....	+16.9	+13.7		+9 ^c	+7.1	+9.6
Galesburg		\$ 160	14 2			n.a.	\$ 66
Percentage change from.....	Sept., 1964.....	+73.9	+0.7		n.a.		+6.5
	Oct., 1963.....	+122.2	+19.3				+22.2
Peoria		\$ 2,738	75 9			\$ 326	\$ 473
Percentage change from.....	Sept., 1964.....	+224.0	-7.7		+23	+2.8	+5.6
	Oct., 1963.....	+85.0	+6.8		+11	+1.6	+18.5
Quincy		\$ 367	16.5			\$ 75	\$ 103
Percentage change from.....	Sept., 1964.....	+33.5	-17.9		n.a.	+17.2	+17.0
	Oct., 1963.....	+70.7	+9.3			+1.4	+18.4
Springfield		\$ 2,518	47 8			\$ 184	\$ 390
Percentage change from.....	Sept., 1964.....	+102.6	-18.0		+14 ^c	+2.2	-14.8
	Oct., 1963.....	+86.8	-1.6		+13 ^c	+1.1	+2.9
SOUTHERN ILLINOIS							
East St. Louis		\$ 685	20 1			\$ 139	\$ 87
Percentage change from.....	Sept., 1964.....	+480.5	-6.9		n.a.	+5.3	-6.5
	Oct., 1963.....	+312.6	+9.2			-9.7	-8.4
Alton		\$ 64	29 1			\$ 57	\$ 49
Percentage change from.....	Sept., 1964.....	-93.7	-1.7		n.a.	+5.6	-18.3
	Oct., 1963.....	-68.0	+6.6			+1.8	0.0
Belleville		\$ 432	13.7			n.a.	\$ 74
Percentage change from.....	Sept., 1964.....	+126.2	-23.9		n.a.		-5.1
	Oct., 1963.....	-30.3	-8.1				+10.4

^a Total for cities listed. ^b Includes East Moline. ^c Includes immediately surrounding territory. n.a. Not available.Sources: ¹ Local sources. Data include federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Monthly data not available. ⁴ Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. ⁵ Federal Reserve Board. ⁶ Local post office reports. Four-week accounting periods ending November 6, 1964, and November 8, 1963.

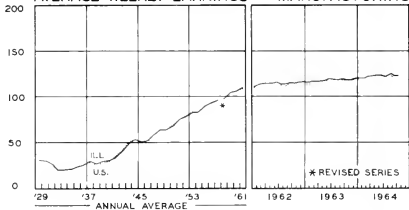
INDEXES OF BUSINESS ACTIVITY

1957-1959 = 100

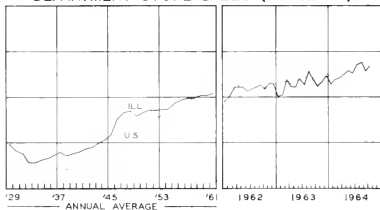
EMPLOYMENT - MANUFACTURING



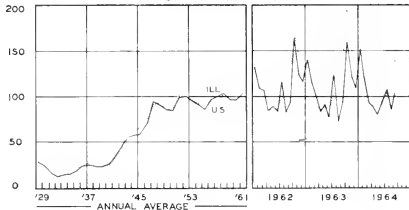
AVERAGE WEEKLY EARNINGS - MANUFACTURING



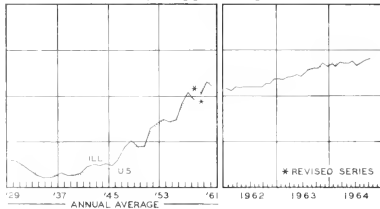
DEPARTMENT STORE SALES (ADJUSTED)



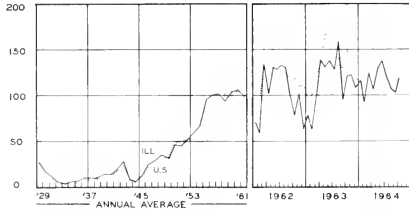
CASH FARM INCOME



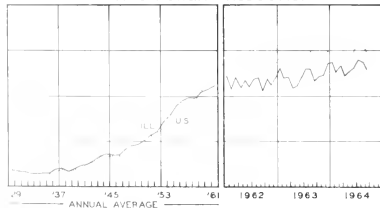
BUSINESS LOANS



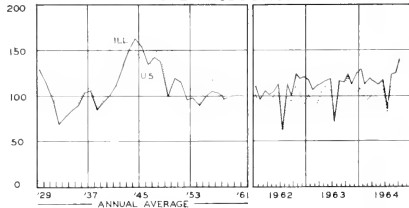
CONSTRUCTION CONTRACTS



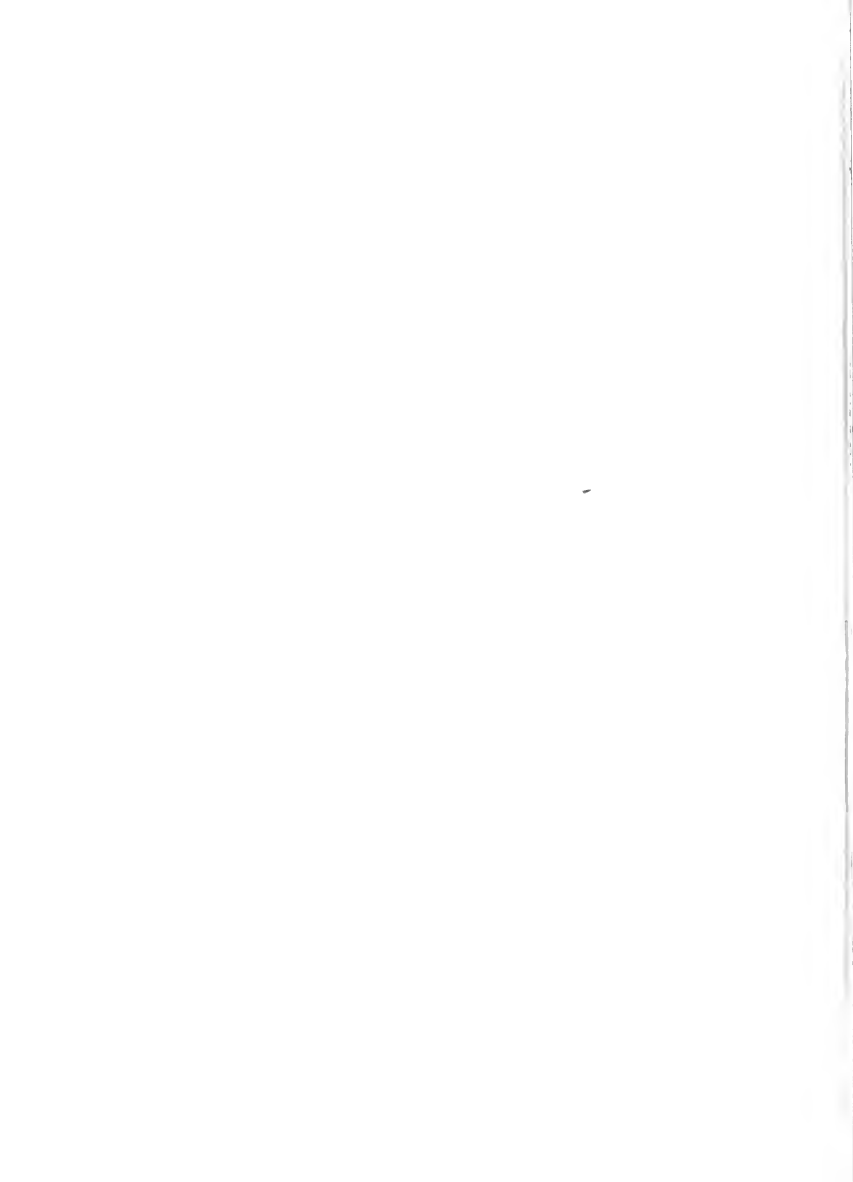
ELECTRIC POWER PRODUCTION



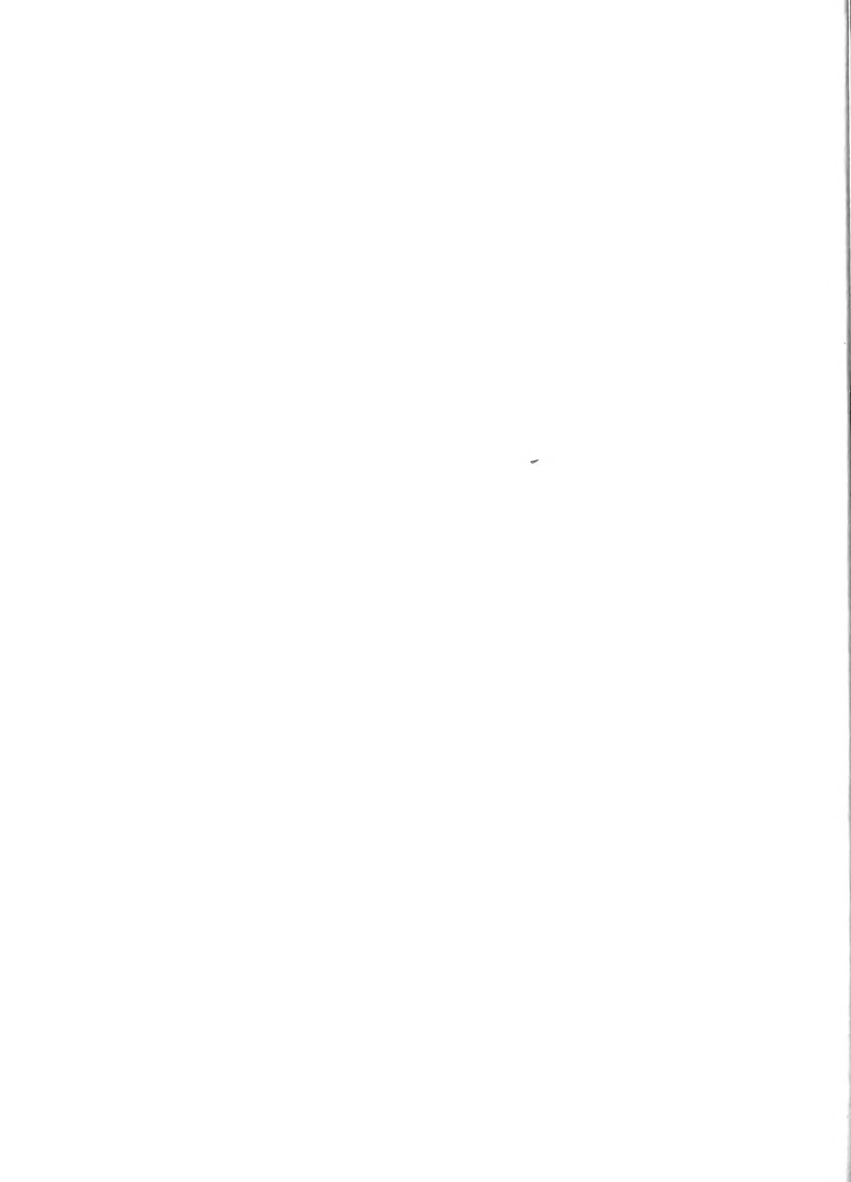
COAL PRODUCTION

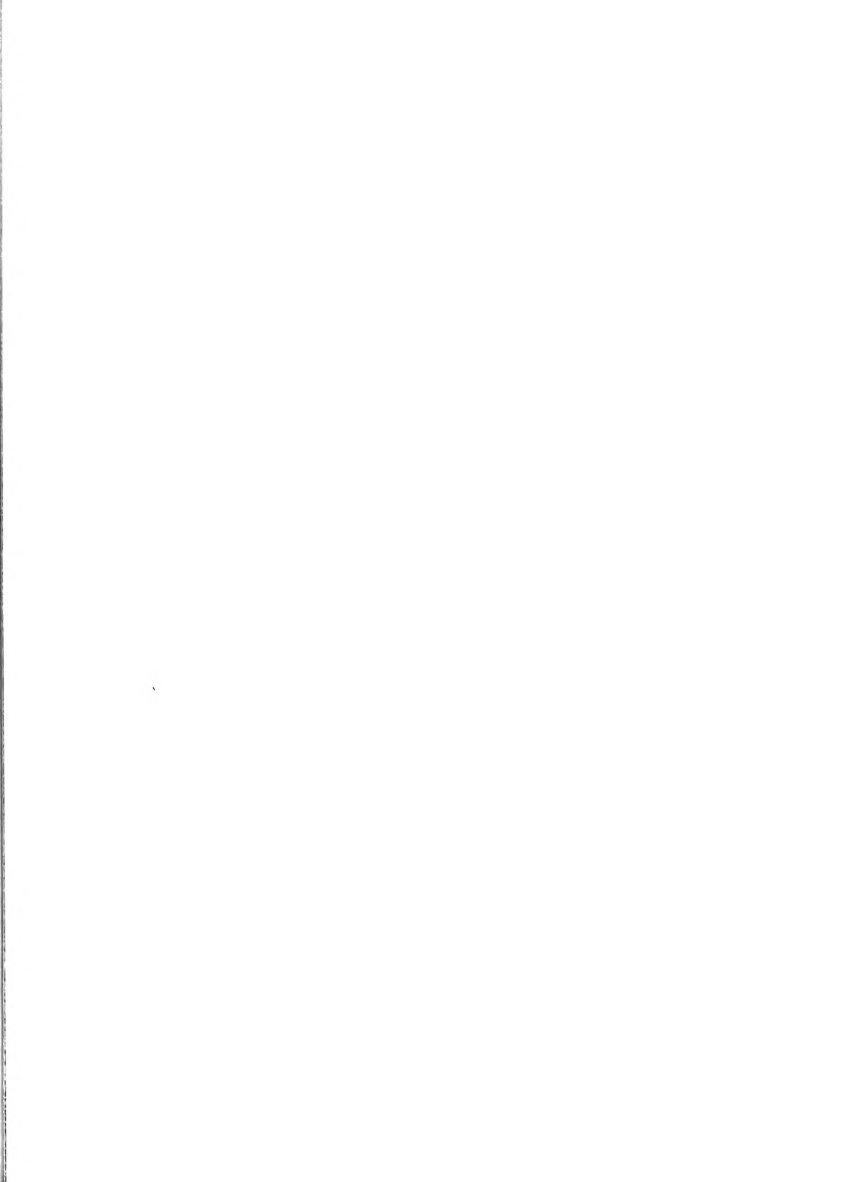












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